11/30/77

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 11/30/77; Container 53

To See Complete Finding Aid:
http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Jordan to The President (2 pp.) re: Begin Message to The President/enclosed in Hutcheson to Jordan 11/30/77 Opened 1/6/93	11/30/77	A

FILE LOCATION

Carter Presidential Papers- Staff Offcies, Office of the Staff Sec.-Press. Handwriting File 11/30/77 BOX 61

RESTRICTION CODES

(A) Closed by Executive Order 12356 governing access to national security information.
(B) Closed by statute or by the agency which originated the document.
(C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Hamilton Jordan
Zbig Brzezinski

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

cc: Mark Siegel

RE: BEGIN MESSAGE TO THE PRESIDENT

CONFIDENTIAL ATTACHMENT

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

cc Siegel

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
	/	JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
	/	BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

November 30, 1977

Good
J

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM TO PRESIDENT CARTER

THROUGH: DR. BRZEZINSKI

FROM: HAMILTON JORDAN

As you know, the White House is usually asked to send someone to accompany congressional delagations on trips abroad. The delegation to the Middle East was headed by Congressman Jim Wright, and Mark Seigel, of my staff, represented the White House.

They had the good fortune to be in Egypt and Israel during the time of the Sadat visit and, because of the large number of Congressmen, were able to see Sadat and Begin for considerable periods of time. During the visit with Begin, he asked Mark to take back a message to you with him. It follows verbatim:

> "As President Carter knows, President Sadat gave me a specific invitation for a State Visit to Egypt, to come to Ismailiya in the Sinai. He said that he could not, just at this moment, invite me to Cairo. I said to President Sadat -- 'My dear friend, I understand your problems, but I am not comfortable with Ismailiya -- it just does not make me feel right. I will wait until the day you can invite me to visit you in Cairo, and then I surely will come immediately.' President Sadat said that he certainly understood my position.
>
> "Sometimes I am not comfortable talking on the phones. You know the Russians are listening to every word, and talking by cable is cold, is not a warm way for friends to deal with each other. Please, when you go back to Washington, please tell the President how much I feel personally for him, how I value his friendship. He is a wonderful man, a warm and honest man, a sincere friend and a man of peace. All of these events could not have taken place if it were not for him.

CONFIDENTIAL

"When you go back to Washington on Monday, I want you to tell the President how much we need him and your country through this difficult process. We will need him more than ever.

"I will never proceed without his fullest consultation. I will keep the President informed about our thoughts and our positions at every stage. I will speak to him and write to him and there surely will be no surprises between us.

"Please give the President this message and also my warmest wishes and respect for his friendship."

<u>ADMINISTRATIVELY CONFIDENTIAL</u>

THE PRESIDENT'S SCHEDULE

Wednesday - November 30, 1977

8:15	Dr. Zbigniew Brzezinski - The Oval Office.
8:45	Mr. Frank Moore - The Oval Office.
10:30 (30 min.)	News Conference. (Mr. Jody Powell). Room 450, EOB.
11:30 (15 min.)	Ms. Esther Peterson. (Mr. Stuart Eizenstat). The Oval Office.
12:00	Luncheon with Secretary Harold Brown and the Joint Chiefs of Staff. (Dr. Zbigniew Brzezinski) - The Roosevelt Room.
2:00 (60 min.)	Budget Review Meeting. (Mr. James McIntyre). The Cabinet Room.
3:00 (60 min.)	Budget Appeals Meeting. (Mr. James McIntyre). The Cabinet Room.

HISTORIC - TRUE LEADERSHIP
SADAT COURAGE - BEGIN GRACIOUS
$12^{\underline{3}}$ VS 36
END RIGID POLICIES
REDUCE FEAR / SUSPICION
US - CONSULT - INTERMEDIARY
ISRAEL - FACE TO FACE
"LIVE AMONG US"

BEGIN / SADAT → COMPREHENSIVE
ROAD → JER → CAIRO → GENEVA
SUNDAY - CAIRO - ATHERTON
PEACE - PALESTINIANS - BORDER / SEC
NO PROGRESS - US INITIATIVE
PROGRESS - US SUPPORT

M^c CLELLAN - VP - ROS
39 YRS = DEFENSE / INTEGRITY

Press Conf 11/30

THE WHITE HOUSE
WASHINGTON

December 1, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

RE: SUMMARY OF EPG TASK FORCE REPORT ON STEEL

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

THE SECRETARY OF THE TREASURY
WASHINGTON

Stu - after Return your conference
J

NOV 23 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Summary of EPG Task Force Report on Steel

Attached is a relatively short but comprehensive summary of Tony Solomon's steel task force package of international and domestic recommendations. EPG members -- Charlie Schultze, Jim McIntyre, Dick Cooper, Bob Strauss, Juanita Kreps and Ray Marshall -- have received periodic briefings on development of the recommendations and related negotiations and have now given clearance on the package for submission to you for decision.

You have set an end-of November deadline for a public Report from the task force. If you give us your decisions on this summary by Monday, November 28, the task force can bring out the Report, reflecting those decisions, on schedule.

In addition to your substantive decisions, we need your instructions as to

- whether the task force Report should in fact be made public (it would be difficult to avoid)
- and whether you wish to announce your position coincident with the Report's release or several days thereafter.

As you instructed, the task force has put together a carefully balanced package of measures dealing with both the international and domestic aspects of the steel problem. After long discussions, the relevant domestic and international interests have accepted the general outlines of the package. (No details have been given to anyone outside the government.) However, if major elements of the package are substantially altered, this delicate consensus may not hold.

Mike

W. Michael Blumenthal

Attachment

REPORT FOR THE PRESIDENT
FROM
ANTHONY SOLOMON
CHAIRMAN OF THE SPECIAL TASK FORCE

The task force recommendations I am submitting to you are directed toward the attainment of three goals:

-- promoting a healthy, competitive domestic steel industry;

-- ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steelworkers and steel communities; and

-- relieving the industry from the pressures of imports below foreign costs without removing the healthy price discipline provided by fair import competition.

The program of recommendations requires no special legislation. The key industry representatives, the United Steelworkers' leadership, and our major foreign trading partners, EC and Japan, have all finally expressed after considerable discussion support in principle for the program. My Congressional briefings on the possible general shape of the program have gone very well (Senator Byrd, House Steel Caucus, key members of Senate Steel Caucus, the Vanik Ways and Means Trade Subcommittee). I expect to see Chairman Long and the Ribicoff Senate Finance Trade Subcommittee as well as meet with the House and Senate Steel Caucuses again.

The program of recommendations are divided into five categories or problem areas:

I. Trade Relief;

II. Modernization:

III. Rationalizing Environmental Policy and Procedures;

IV. Community and Labor Assistance; and

V. Other General Measures.

With respect to the trade relief procedure recommended, the U.S. importers will not be happy although they admit that this is less objectionable than a do-nothing policy under which the present massive anti-dumping cases will result in major disruptive cuts in imports. We should expect that as in the past there will be a court challenge from some group but our Counsel believes we have a strong defensible case.

I. Trade Relief -- Triggering Price "Fast Track" Antidumping System

Steel imports are currently accounting for about 20% of domestic consumption. The industry contends this level of penetration is due largely to unfair trade practices. The industry is pressing for protection against unfair trade practices, particularly from dumping. It claims that if trade is fair it can compete with imports to the U.S. market.

Recommendation: The Department of Treasury, in administering the Antidumping Act, will set a Triggering Price for initiating antidumping investigations for steel mill products imported into the U.S.

The Triggering Price permits Treasury to organize its resources so it can take accelerated action to remedy unfair trading practices relating to steel products. It does not detract from any of the legal rights that foreign producers or the domestic steel industry presently enjoy under the Antidumping Act. However, the success of the Triggering Price approach in dealing with the steel problem will depend to a considerable extent on the domestic industry's restraint in bringing new antidumping petitions and its willingness to withdraw existing petitions. The industry understands this point and will act responsibly if the approach appears to have a good chance of working.

- The Triggering Price will be set by Treasury within 5% of the full cost of production plus transportation of the most efficient producers, currently the Japanese steel industry. It will be reviewed quarterly. The 5% flexibility recognizes the complexities of administering a system which seeks to remedy injury from unfair trade practices of foreign producers without shutting out appropriate price competition from them.

- The Triggering Price would be applied universally to all steel imports.

-- Imports would be closely monitored by the U.S. Customs Service.

- Substantial sales under the Triggering Price would result in expedited Treasury investigations and accelerated application of appropriate remedies, including possible retroactive application of antidumping duties.

The Triggering Price and its associated fast track remedial procedures can be instituted within 60 days, and is consistent with existing law and with our international obligations.

The Triggering Price technique should result in substantial elimination of the injury the steel industry is presently suffering from unfair trade practices. It can do so without eliminating all possibility of price competition -- an element missing in solutions featuring quantitative restraints. Moreover, the Triggering Price technique would not require the effective exclusion of the bulk of steel imports from Europe which will probably occur if pending and projected antidumping petitions against European producers continue to be prosecuted.

Implementation of the Triggering Price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the Triggering Price approach will undoubtedly not be perfect; but experience in working under the approach should teach us how to cure its inadequacies.

We have concluded that if unfair competition, as defined by the law, is effectively deterred through the "Fast Track - Trigger Price System" that the industry can recapture a substantial share of the market. Necessarily rough calculations indicate that, absent price increases significantly out-of-line with cost increases, the industry should recapture approximately 6 million tons of production represented by a reduction in imports. This represents a decline from the current 20% level of total consumption accounted for by imports to a level of 14% (which is closer to the historical average of the last decade).

The increased volume should raise industry earnings by $900 million and result in the employment of 25,000 or more steelworkers than would be the case if current conditions continued. This should also result in a rise in the industry's rates of capacity utilization to 85%, which is relatively high in comparison to the industry's experience over the last decade.

II. Modernization

A. The industry has a serious cash flow problem. Earnings are not sufficient to meet its captial requirements for modernization, replacement and environmental controls or for access to private capital on the scale needed. Indeed this year there will be no earnings for the industry as a whole.

We estimate the industry needs to spend between \$3.5 and \$4.0 billion annually to modernize, and to maintain and replace existing equipment. Between \$0.5 and \$1 billion of these expenditures are allotted to investment in pollution control equipment.

The industry's cash flow in 1975 and 1976 was \$3.0 billion. It will fall to \$2.2 billion in 1977. There is therefore a substantial gap of \$1.3 to \$1.8 billion between current cash flow before dividend payments and investment needs.

The increased earnings from the application of the reference price system should yield an increase of \$900 million in earnings. However, a gap of between \$0.4 and \$0.9 billion will remain even before the payment of dividends. Assuming historical levels of dividend payoffs, \$600 million annually, the gap would be between \$1 and \$1.5 billion.

The general tax package includes a number of measures which on net will stimulate investment and increase cash flow in the steel industry as well as in other industries. We estimate the net effect will be to increase cash flow by an average of \$150 million annually from 1979 through 1982.

Recommendation: <u>The Internal Revenue Service (IRS) through administrative action reduce the guideline life of steel equipment from its current level of 18 years to 15 years.</u> These more liberal guidelines will add \$18 million to industry cash flow in 1978 and increase to \$90 million by 1982.

impact on other heavy industry?

A reduction in the guideline life in combination with the various plus and minus measures of your new general tax package will increase the industry's cash flow by an average of approximately \$200 million annually from 1979 through 1982.

Even with these tax measures the industry will still have a gap of between \$0.8 and \$1.3 billion between internal funds and capital requirements.

The cash flow assistance that the Federal Government would make available to the steel industry as such is small, i.e., an average of $40 to $50 million annually in liberalized depreciation allowances. However, we estimate that when it is combined with the improved earnings and your general tax program for next year, the bulk of the industry could then be in a position to secure from private capital markets the remaining funds necessary for modernization.

Industry representatives have agreed to make public statements committing the increase in cash flow for stepped-up modernization of their steel plant and equipment. We estimate that if the industry could implement its current plans for modernization their production costs would decline by $6 to $9 per ton. This is a small but significant reduction. The Council on Wage & Price Stability study indicated that the differential between U.S. and Japanese costs in the U.S. market was not much larger.

B. There are smaller integrated and nonintegrated steel firms who are extremely depressed financially and who would benefit only marginally from the above measures. These firms are located in areas where most of the recent plant closings and cutbacks occurred. They are in serious trouble and may close if additional help is not provided. Closings or cutbacks of these firms would exacerbate the already depressed conditions in these areas, and remove a source of competition for the larger integrated firms. These firms currently employ 83,000 workers and account for 16% of total industry raw steel production.

Recommendation: You direct the release of a $215 million Economic Development Assistance revolving fund in the Office of Management and Budget as funds for industrial loan guarantees.

What would remain in EDA funds?

Only firms experiencing (1) serious financial problems, with little or no access to capital markets, (2) who are located in areas of high and rising unemployment or threatened massive layoffs and (3) who have viable plans to modernize would qualify for such guarantees on a case-by-case examination.

Under the Economic Development Administration's (EDA) formula the $215 million could support $1 billion in loan guarantees. However, we estimate that the maximum use of these guarantees over the next four years could cumulate to no more than $500 million and might be less.

III. Rationalizing Environmental Policy and Procedures

The steel industry is a major polluter. The costs of complying with environmental regulations are substantial and will rise in the near term as the industry is forced to bring older facilities into compliance. This is also true for other industries. We do not believe that the current financial plight of the industry should deter us in seeking a cleaner environment.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

Recommendations:

-- No relaxation of environmental goals.

-- No differential treatment in the regulation or enforcement for the steel industry.

-- However we recommend that the EPA reexamine its regulations and its regulatory processes to ensure that they are economically efficient and do not present any unnecessary barriers to modernization.

The EPA Administrator has agreed to conduct this reexamination and has already begun to do so. There is no need therefore for you to formally request that such a reexamination be conducted.

Recognizing that some of these regulatory reform issues have macroeconomic significance, EPA has asked CEA to assist with the analyses.

-- EPA will deliver a progress report that will reflect CEA's views to you in six months. The study will cover such areas as:

-- the policies that apply to new sources locating in non-attainment areas, including the "offset" policies;

-- issuance of future permits plant wide vs. process by process; and

-- the appropriate economic considerations for New Source Performance Standards.

IV. Community and Labor Assistance

A. The depressed conditions in the U.S. steel industry and recent plant closings and shutdowns have been largely responsible for the reduction in total industry employment from 445,000 to 425,000 since 1976. Approximately 57,000 steelworkers are now receiving trade adjustment assistance.

The impact is exaggerated because it is concentrated regionally. Almost 55% of the laid off steelworkers are located in Ohio, Pennsylvania and New York, and the recent plant closings and cutbacks are confined to these areas.

Recommendation: You direct the EDA of the Department of Commerce to dedicate $20 million in funds under their Title XI authority to combat actual or threatened unemployment in affected steel communities.

This would be in addition to the possible qualification of these communities' requests for assistance under Title I -- regular public works; and Title III -- technical assistance.

B. The Department of Energy and the EPA are currently reviewing a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

Recommendation: You establish an interagency task force consisting of the Department of Energy, the Environmental Protection Agency, and the Department of Commerce to review and evaluate alternative uses for abandoned steel facilities and report to you their findings by June 30, 1978.

C. In the area of mass layoffs two important groups with major community and worker support, the Youngstown Religious Coalition and the Steel Community Coalition, are combining their efforts to conduct a feasibility study of community and/or worker takeover of abandoned steel facilities in Youngstown, Ohio. We believe that in selective cases and under certain conditions a community or worker takeover, with sufficient modernization, may prove to be realistic and economically viable. There is no way of prejudging particular cases without hardheaded feasibility studies.

Recommendation: You direct the EDA supplemented as appropriate by the Department of Housing and Urban Development to give consideration in their analysis of funding requests to economically viable projects involving community and/or worker takeover of abandoned steel facilities.

7

D. Action on the proposed Trade Adjustment Assistance program would help meet problems primarily in the communities and secondarily to the labor force heavily impacted by steel problems, and give guidance to Congressional consideration of legislation being proposed by various members of the Steel Caucus.

Recommendation: We recommend that a final decision be made, before the Congress resumes in January, on the exact content of the Trade Adjustment Assistance package presently before you.

V. Other General Measures

Our investigation exposed several areas where small but significant changes in existing policies or practices, or their clarification, could increase the efficiency of weaker steel firms, thus promoting competition and stabilizing employment in the industry. These include: joint venture and merger policies; funding of R&D; transportation systems; and industry, labor and government cooperation.

A. Several recent studies show that joint ventures in various steel processes (furnace melt capacity, coke ovens) could reduce costs, lower energy consumption, and make it easier to meet environmental standards. Mergers of smaller, weaker firms could lead to increased efficiency as a result of scale economies, and thus promote competition. The steel industry has expressed increased interest in both joint ventures and mergers, but there is widespread feeling that government policies in both of these areas need clarification.

> Recommendation: You request the Department of Justice to issue guidelines for (1) joint ventures in steel processes (2) and to the extent appropriate mergers in the steel industry and (3) to handle requests for joint ventures and mergers by steel companies expeditiously.

B. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percent of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden to individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is a basic important industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending. This compares with Federal contributions accounting for 9% of the R&D expenditures of the chemical industry, 14% of machinery industry expenditures, 47% of electrical equipment, and 78% of aircraft spending.

Recommendation: You request the Department of Justice to issue specific guidelines for joint ventures in steel industry R&D directed toward energy savings and pollution abatement.

ok narrowly defined

Recommendation: You also request the Office of Management and Budget and the Office of Science and Technology to examine the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology.

ok

C. Transportation costs are an important cost item for steel and for other basic industries, particularly those located at inland sites. Currently rail service is more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the system. For example, iron ore is transported to Youngstown by truck rather than rail because of the cost and time savings. The concept of unit ore trains is an alternative now under investigation that would lower costs.

Recommendation: You establish a task force to review transportation systems serving the steel industry that will report to you on what regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

ok

D. There is a need to continue cooperation and coordination of this program between the government, the industry, and labor.

Recommendation: We recommend that you establish a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry. 1

THE WHITE HOUSE
WASHINGTON

11/29/77

Mr. President:

Moore, Watson and McIntyre concur with Eizenstat.

Brzezinski's comment is attached.

Rick

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

RE: EPG TASK FORCE ON STEEL

cc of Strauss to Schultze — w/ STR OK by Jane Fitzgerald

THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 23 1977

Stu -
You, Solomon & others work out differences - Then submit to me
JC
ps Expedite
J.

MEMORANDUM FOR THE PRESIDENT

Subject: Summary of EPG Task Force Report on Steel

Attached is a relatively short but comprehensive summary of Tony Solomon's steel task force package of international and domestic recommendations. EPG members -- Charlie Schultze, Jim McIntyre, Dick Cooper, Bob Strauss, Juanita Kreps and Ray Marshall -- have received periodic briefings on development of the recommendations and related negotiations and have now given clearance on the package for submission to you for decision.

You have set an end-of November deadline for a public Report from the task force. If you give us your decisions on this summary by Monday, November 28, the task force can bring out the Report, reflecting those decisions, on schedule.

In addition to your substantive decisions, we need your instructions as to

- whether the task force Report should in fact be made public (it would be difficult to avoid)
- and whether you wish to announce your position coincident with the Report's release or several days thereafter.

As you instructed, the task force has put together a carefully balanced package of measures dealing with both the international and domestic aspects of the steel problem. After long discussions, the relevant domestic and international interests have accepted the general outlines of the package. (No details have been given to anyone outside the government.) However, if major elements of the package are substantially altered, this delicate consensus may not hold.

W. Michael Blumenthal

Attachment

REPORT FOR THE PRESIDENT
FROM
ANTHONY SOLOMON
CHAIRMAN OF THE SPECIAL TASK FORCE

The task force recommendations I am submitting to you are directed toward the attainment of three goals:

- -- promoting a healthy, competitive domestic steel industry;
- -- ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steelworkers and steel communities; and
- -- relieving the industry from the pressures of imports below foreign costs without removing the healthy price discipline provided by fair import competition.

The program of recommendations requires no special legislation. The key industry representatives, the United Steelworkers' leadership, and our major foreign trading partners, EC and Japan, have all finally expressed after considerable discussion support in principle for the program. My Congressional briefings on the possible general shape of the program have gone very well (Senator Byrd, House Steel Caucus, key members of Senate Steel Caucus, the Vanik Ways and Means Trade Subcommittee). I expect to see Chairman Long and the Ribicoff Senate Finance Trade Subcommittee as well as meet with the House and Senate Steel Caucuses again.

The program of recommendations are divided into five categories or problem areas:

I. Trade Relief;

II. Modernization:

III. Rationalizing Environmental Policy and Procedures;

IV. Community and Labor Assistance; and

V. Other General Measures.

With respect to the trade relief procedure recommended, the U.S. importers will not be happy although they admit that this is less objectionable than a do-nothing policy under which the present massive anti-dumping cases will result in major disruptive cuts in imports. We should expect that as in the past there will be a court challenge from some group but our Counsel believes we have a strong defensible case.

I. <u>Trade Relief -- Triggering Price "Fast Track" Antidumping System</u>

Steel imports are currently accounting for about 20% of domestic consumption. The industry contends this level of penetration is due largely to unfair trade practices. The industry is pressing for protection against unfair trade practices, particularly from dumping. It claims that if trade is fair it can compete with imports to the U.S. market.

<u>Recommendation:</u> <u>The Department of Treasury, in administering the Antidumping Act, will set a Triggering Price for initiating antidumping investigations for steel mill products imported into the U.S.</u>

The Triggering Price permits Treasury to organize its resources so it can take accelerated action to remedy unfair trading practices relating to steel products. It does not detract from any of the legal rights that foreign producers or the domestic steel industry presently enjoy under the Antidumping Act. However, the success of the Triggering Price approach in dealing with the steel problem will depend to a considerable extent on the domestic industry's restraint in bringing new antidumping petitions and its willingness to withdraw existing petitions. The industry understands this point and will act responsibly if the approach appears to have a good chance of working.

- The Triggering Price will be set by Treasury within 5% of the full cost of production plus transportation of the most efficient producers, currently the Japanese steel industry. It will be reviewed quarterly. The 5% flexibility recognizes the complexities of administering a system which seeks to remedy injury from unfair trade practices of foreign producers without shutting out appropriate price competition from them.

- The Triggering Price would be applied universally to all steel imports.

- Imports would be closely monitored by the U.S. Customs Service.

- Substantial sales under the Triggering Price would result in expedited Treasury investigations and accelerated application of appropriate remedies, including possible retroactive application of antidumping duties.

The Triggering Price and its associated fast track remedial procedures can be instituted within 60 days, and is consistent with existing law and with our international obligations.

The Triggering Price technique should result in substantial elimination of the injury the steel industry is presently suffering from unfair trade practices. It can do so without eliminating all possibility of price competition -- an element missing in solutions featuring quantitative restraints. Moreover, the Triggering Price technique would not require the effective exclusion of the bulk of steel imports from Europe which will probably occur if pending and projected antidumping petitions against European producers continue to be prosecuted.

Implementation of the Triggering Price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the Triggering Price approach will undoubtedly not be perfect; but experience in working under the approach should teach us how to cure its inadequacies.

We have concluded that if unfair competition, as defined by the law, is effectively deterred through the "Fast Track - Trigger Price System" that the industry can recapture a substantial share of the market. Necessarily rough calculations indicate that, absent price increases significantly out-of-line with cost increases, the industry should recapture approximately 6 million tons of production represented by a reduction in imports. This represents a decline from the current 20% level of total consumption accounted for by imports to a level of 14% (which is closer to the historical average of the last decade).

The increased volume should raise industry earnings by $900 million and result in the employment of 25,000 or more steelworkers than would be the case if current conditions continued. This should also result in a rise in the industry's rates of capacity utilization to 85%, which is relatively high in comparison to the industry's experience over the last decade.

II. Modernization

A. The industry has a serious cash flow problem. Earnings are not sufficient to meet its captial requirements for modernization, replacement and environmental controls or for access to private capital on the scale needed. Indeed this year there will be no earnings for the industry as a whole.

We estimate the industry needs to spend between \$3.5 and \$4.0 billion annually to modernize, and to maintain and replace existing equipment. Between \$0.5 and \$1 billion of these expenditures are allotted to investment in pollution control equipment.

The industry's cash flow in 1975 and 1976 was \$3.0 billion. It will fall to \$2.2 billion in 1977. There is therefore a substantial gap of \$1.3 to \$1.8 billion between current cash flow before dividend payments and investment needs.

The increased earnings from the application of the reference price system should yield an increase of \$900 million in earnings. However, a gap of between \$0.4 and \$0.9 billion will remain even before the payment of dividends. Assuming historical levels of dividend payoffs, \$600 million annually, the gap would be between \$1 and \$1.5 billion.

The general tax package includes a number of measures which on net will stimulate investment and increase cash flow in the steel industry as well as in other industries. We estimate the net effect will be to increase cash flow by an average of \$150 million annually from 1979 through 1982.

> Recommendation: The Internal Revenue Service (IRS) through administrative action reduce the guideline life of steel equipment from its current level of 18 years to 15 years. These more liberal guidelines will add \$18 million to industry cash flow in 1978 and increase to \$90 million by 1982.

A reduction in the guideline life in combination with the various plus and minus measures of your new general tax package will increase the industry's cash flow by an average of approximately \$200 million annually from 1979 through 1982.

Even with these tax measures the industry will still have a gap of between \$0.8 and \$1.3 billion between internal funds and capital requirements.

The cash flow assistance that the Federal Government would make available to the steel industry as such is small, i.e., an average of $40 to $50 million annually in liberalized depreciation allowances. However, we estimate that when it is combined with the improved earnings and your general tax program for next year, the bulk of the industry could then be in a position to secure from private capital markets the remaining funds necessary for modernization.

Industry representatives have agreed to make public statements committing the increase in cash flow for stepped-up modernization of their steel plant and equipment. We estimate that if the industry could implement its current plans for modernization their production costs would decline by $6 to $9 per ton. This is a small but significant reduction. The Council on Wage & Price Stability study indicated that the differential between U.S. and Japanese costs in the U.S. market was not much larger.

B. There are smaller integrated and nonintegrated steel firms who are extremely depressed financially and who would benefit only marginally from the above measures. These firms are located in areas where most of the recent plant closings and cutbacks occurred. They are in serious trouble and may close if additional help is not provided. Closings or cutbacks of these firms would exacerbate the already depressed conditions in these areas, and remove a source of competition for the larger integrated firms. These firms currently employ 83,000 workers and account for 16% of total industry raw steel production.

Recommendation: You direct the release of a $215 million Economic Development Assistance revolving fund in the Office of Management and Budget as funds for industrial loan guarantees.

Only firms experiencing (1) serious financial problems, with little or no access to capital markets, (2) who are located in areas of high and rising unemployment or threatened massive layoffs and (3) who have viable plans to modernize would qualify for such guarantees on a case-by-case examination.

Under the Economic Development Administration's (EDA) formula the $215 million could support $1 billion in loan guarantees. However, we estimate that the maximum use of these guarantees over the next four years could cumulate to no more than $500 million and might be less.

III. Rationalizing Environmental Policy and Procedures

The steel industry is a major polluter. The costs of complying with environmental regulations are substantial and will rise in the near term as the industry is forced to bring older facilities into compliance. This is also true for other industries. We do not believe that the current financial plight of the industry should deter us in seeking a cleaner environment.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

Recommendations:

-- No relaxation of environmental goals.

-- No differential treatment in the regulation or enforcement for the steel industry.

-- However we recommend that the EPA reexamine its regulations and its regulatory processes to ensure that they are economically efficient and do not present any unnecessary barriers to modernization.

The EPA Administrator has agreed to conduct this reexamination and has already begun to do so. There is no need therefore for you to formally request that such a reexamination be conducted.

Recognizing that some of these regulatory reform issues have macroeconomic significance, EPA has asked CEA to assist with the analyses.

-- EPA will deliver a progress report that will reflect CEA's views to you in six months. The study will cover such areas as:

-- <u>the policies that apply to new sources locating in non-attainment areas, including the "offset" policies</u>;

-- <u>issuance of future permits plant wide vs. process by process</u>; <u>and</u>

-- <u>the appropriate economic considerations for New Source Performance Standards</u>.

IV. Community and Labor Assistance

A. The depressed conditions in the U.S. steel industry and recent plant closings and shutdowns have been largely responsible for the reduction in total industry employment from 445,000 to 425,000 since 1976. Approximately 57,000 steelworkers are now receiving trade adjustment assistance.

The impact is exaggerated because it is concentrated regionally. Almost 55% of the laid off steelworkers are located in Ohio, Pennsylvania and New York, and the recent plant closings and cutbacks are confined to these areas.

Recommendation: You direct the EDA of the Department of Commerce to dedicate $20 million in funds under their Title XI authority to combat actual or threatened unemployment in affected steel communities.

This would be in addition to the possible qualification of these communities' requests for assistance under Title I -- regular public works; and Title III -- technical assistance.

B. The Department of Energy and the EPA are currently reviewing a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

Recommendation: You establish an interagency task force consisting of the Department of Energy, the Environmental Protection Agency, and the Department of Commerce to review and evaluate alternative uses for abandoned steel facilities and report to you their findings by June 30, 1978.

C. In the area of mass layoffs two important groups with major community and worker support, the Youngstown Religious Coalition and the Steel Community Coalition, are combining their efforts to conduct a feasibility study of community and/or worker takeover of abandoned steel facilities in Youngstown, Ohio. We believe that in selective cases and under certain conditions a community or worker takeover, with sufficient modernization, may prove to be realistic and economically viable. There is no way of prejudging particular cases without hardheaded feasibility studies.

Recommendation: You direct the EDA supplemented as appropriate by the Department of Housing and Urban Development to give consideration in their analysis of funding requests to economically viable projects involving community and/or worker takeover of abandoned steel facilities.

D. Action on the proposed Trade Adjustment Assistance program would help meet problems primarily in the communities and secondarily to the labor force heavily impacted by steel problems, and give guidance to Congressional consideration of legislation being proposed by various members of the Steel Caucus.

Recommendation: We recommend that a final decision be made, before the Congress resumes in January, on the exact content of the Trade Adjustment Assistance package presently before you.

V. Other General Measures

Our investigation exposed several areas where small but significant changes in existing policies or practices, or their clarification, could increase the efficiency of weaker steel firms, thus promoting competition and stabilizing employment in the industry. These include: joint venture and merger policies; funding of R&D; transportation systems; and industry, labor and government cooperation.

A. Several recent studies show that joint ventures in various steel processes (furnace melt capacity, coke ovens) could reduce costs, lower energy consumption, and make it easier to meet environmental standards. Mergers of smaller, weaker firms could lead to increased efficiency as a result of scale economies, and thus promote competition. The steel industry has expressed increased interest in both joint ventures and mergers, but there is widespread feeling that government policies in both of these areas need clarification.

> Recommendation: You request the Department of Justice to issue guidelines for (1) joint ventures in steel processes (2) and to the extent appropriate mergers in the steel industry and (3) to handle requests for joint ventures and mergers by steel companies expeditiously.

B. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percent of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden to individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is a basic important industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending. This compares with Federal contributions accounting for 9% of the R&D expenditures of the chemical industry, 14% of machinery industry expenditures, 47% of electrical equipment, and 78% of aircraft spending.

Recommendation: You request the Department of Justice to issue specific guidelines for joint ventures in steel industry R&D directed toward energy savings and pollution abatement.

Recommendation: You also request the Office of Management and Budget and the Office of Science and Technology to examine the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology.

C. Transportation costs are an important cost item for steel and for other basic industries, particularly those located at inland sites. Currently rail service is more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the system. For example, iron ore is transported to Youngstown by truck rather than rail because of the cost and time savings. The concept of unit ore trains is an alternative now under investigation that would lower costs.

Recommendation: You establish a task force to review transportation systems serving the steel industry that will report to you on what regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

D. There is a need to continue cooperation and coordination of this program between the government, the industry, and labor.

Recommendation: We recommend that you establish a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry.

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

11/30/77

Mr. President:

Staff comments on the Solomon Task Force proposals are attached.

Note that Stu recommends a meeting with your advisors before making final decisions.

Rick

EIZENSTAT
COMMENTS

THE WHITE HOUSE

WASHINGTON

November 30, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BOB GINSBURG

SUBJECT: Solomon Task Force Report on Steel

We think that Tony Solomon has done an excellent job of putting together, in a relatively short period of time, a set of recommendations to aid the steel industry. The problems are extremely complex, however, and the Task Force Report raises a number of issues and questions. The Summary of the Report is the first written description we or any of the EPG principals have seen of the proposed program.

Our general recommendation is that with a program of this kind of political and economic significance, the problem areas be further staffed out before we go public. The Department of Justice needs to be fully involved in passing on the legality of the key proposals.

We support the central thrust of the proposals but think clarification is necessary in the following areas.

<u>Objectives of the Steel Industry Program</u>

We need a clearer idea of the objectives, both short run and long run, of the program and the likelihood of reaching those objectives.

1. It is difficult to understand exactly what the Summary means by a "healthy, competitive domestic steel industry." Do we want an industry which can keep imports down to historic levels (14%)? Do we want an industry with at least the same number of employees? Do we want an industry which, 5 to 10 years from now, has roughly the present level or greater or smaller levels of productive capacity?

2. Should we let the marginal firms go out of business under the current shake-out or do we intend to keep them in place?

3. To what extent will the program recommended actually succeed in "ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steel workers and steel communities"?

Trade Proposal--The Reference Price System

The centerpiece of the steel program is the proposed reference price (RP) system for facilitating antidumping procedures. Treasury will set a RP within a band 5% above or below the estimated average cost of production of the most efficient producers (now the Japanese steel industry) for each steel product. The band provides needed flexibility but the steel industry has already expressed opposition to the margin below the estimated cost of production on the grounds that it legitimizes dumping.

The RPs will be reviewed quarterly but will not be moved beyond the 5% band unless there is a change in the estimated cost of production of the relevant steel product. "Substantial" sales below the RP for a product (except by firms wich can demonstrate that their actual costs of production are below the RP) would result in accelerated antidumping procedures, including possible retroactive application of antidumping duties.

The theory behind the RP system is that it will prevent imports which are below the RPs but that, since the RPs are based on Japanese production costs and will not rise except as those costs rise, significant competitive pressures will remain to deter the domestic steel industry from excessive price increases. Treasury regards this system as far preferable to a continuation of the current handling of antidumping cases, which it believes will result in disastrous import restrictions.

There are, however, some risks and costs associated with a RP system:

1. Fixing the RPs. The actual RPs will be the crucial determinant of whether this system works. If they are set too low, the system will not adequately restrict imports. If they are set too high,

imports may be restricted too sharply, with adverse consequences not only for our trading partners but for domestic steel users and domestic inflation.

However, fixing the right level of RPs is no science. The Japanese are unlikely to disclose their data on production costs. And it is not clear precisely what elements will go into Treasury's calculation of the RP (e.g., what assumptions will be made about rates of return). Furthermore, the system is not very flexible since, except within the 5% band, the RPs cannot be changed without a change in the estimated Japanese cost of production. And it may be politically difficult to lower RPs even within the 5% band. These issues go to the viability of the RP system itself.

We assume that Treasury believes that the 5% band plus administrative discretion in determining cost of production provides enough flexibility to adjust the RPs as necessary. The question is: what assurances do we have that this system can be made to work?

2. Inflationary consequences. To the extent the RP system works, it will enable the domestic steel industry to increase its prices. We recommend that you ask Charlie Schultze to provide you with an analysis of the likely effect of the RP system on domestic inflation.

3. Effect on employment and production, etc. The Task Force Report estimates that "absent prices increases significantly out of line with cost increases", the RP system should result in annual increases in domestic steel production of 6 million tons, improved profits of $900 million per year, and the employment of 25,000 more steelworkers than would be the case if current conditions continued. We recommend that you ask Charlie Schultze to provide you with his analysis of the probable economic effects of the RP system, including his estimate of the likelihood that domestic price increases will not be significantly greater than cost increases and the consequences for the economic effects of the program if they are.

4. <u>Precedent</u>. The RP system may set a precedent for application to other industries faced with similar conditions of excess capacity and foreign sales below cost, e.g., copper and synthetic fibers. Thus, it should be determined if the Administration would be impelled by principles of equality of treatment to apply RPs to other industries similarly situated.

5. <u>Legality</u>. The RP system might be challenged in court from both sides:

   (a) because it would permit antidumping procedures without any proof of injury to a domestic firm and would shift the burden of proof from the domestic industry to the exporter; and

   (b) because the 5% margin below cost "legitimizes" dumping.

   One of the first questions we will get about the RP system is its legality. The Task Force Report indicates that Treasury counsel believes that we "have a strong defensible case." We recommend that the Justice Department be asked to give an opinion approving the legality.

6. <u>Existing dumping cases</u>. The Task Force Report notes that the success of the RP system will depend in good part on the withdrawal of the existing dumping cases and willingness by the industry to refrain from bringing new dumping cases. However, there is nothing to prevent individual steel firms (particularly small, "maverick" firms) from either continuing the existing cases or bringing new ones. Therefore, it should be determined what happens to the RP system if small steel producers continue to bring dumping cases? What further assurances can we obtain that this will not occur?

7. <u>Duration</u>. There is no indication in the Task Force Report as to when and under what circumstances the RP system will terminate. Presumably, we do not intend this to be a permanent system. Therefore, we should determine what to say about the duration of the RP system.

8. Conclusion. The RP system is a very imaginative approach to trade relief for the steel industry. It may well be the best approach we can devise. However, we have never developed such a system before and there can be no guarantee that it will work.

Domestic Proposals

1. Scope of domestic proposals. The steel industry's basic complaint has been unfair foreign competition. We think the RP system represents a good effort at meeting that problem. The domestic proposals really amount to a kind of trade adjustment assistance program for the steel industry and should be evaluated like other trade adjustment assistance efforts: (a) are the measures politically necessary?; and (b) will the measures facilitate a rational restructuring of the industry?

2. Reduction of IRS guideline lives for steel equipment. The Task Force recommends that the IRS reduce the guideline lives for the depreciation of steel equipment from 18 to 15 years. We understand that the Treasury just completed a study on guideline lives in October and concluded that the proper tax policy would call for either maintenance of the present guideline lives of 18 years or an increase to 20 years. This study is already known to representatives of the steel industry and is likely to become a matter of public record in the near future.

   Furthermore, we understand from Treasury tax officials that they may not have the legal authority to arbitrarily reduce guideline lives in order to provide economic assistance to any firm or industry.

3. EDA loan guarantees for troubled steel firms. The Task Force Report recommends the release of $215 million to fund loan guarantees for financially troubled steel firms. As we understand it, a substantial portion of these funds would go to guarantee loans for just 3 firms (Jones and Laughlin, Youngstown, and Wheeling Pittsburgh).

If a loan guarantee could help a temporarily troubled firm to regain long-run competitiveness, it would be a good investment. However, the $215 million total should be compared with EDA's existing budget for business development loans which amounts to $53 million and the $62 million for firm loan guarantees recommended to you for the entire trade adjustment assistance program. This proposal may have the looks of a Lockheed-type "bailout" for troubled firms.

4. Community adjustment assistance. We support the recommended expenditure of $20 million for adjustment assistance for the affected steel communities. You will soon be making decisions on overall trade adjustment assistance policy. Any decisions which you make in the steel context should be consistent with that overall policy.

5. Additional studies. We think studies of alternative uses for abandoned steel facilities and of transportation costs in the steel industry could be useful.

6. R & D spending. We are in general agreement with the recommendation that there be additional examination of the possibility of increased federal funding of R & D expenditures by the steel industry focused on energy conservation and pollution abatement technology.

7. Quid Pro Quo. While we may get some assurances from large companies to drop antidumping suits, it is not clear we will get anything else in return for our program, such as wage and price moderation. We do not necessarily believe we should seek such assurances unless we think we can obtain them, but we should recognize that we are not receiving much quid pro quo from the industry.

8. Joint venture and merger guidelines. We understand that the Antitrust Division has problems with the recommendations in this area (mainly on the grounds that they would lead to duplication of existing guidelines) and has submitted revised language to Treasury.

Announcement of the Program

Treasury is very anxious for this program to be announced as soon as possible. We recommend that you meet with your principal advisers and those who worked on this program to resolve any open questions before deciding on a public announcement, even if that takes a few extra days. We also need to make sure we have broad Congressional approval so that we can forestall legislative attempts at a solution which may severely restrict trade.

McINTYRE
COMMENTS

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. Jim McIntyre

SUBJECT: Comments on the Solomon Steel Task Force Report

In addition to the specific concerns noted below, I have two general concerns about the Solomon Report as it describes the steel industry. First, it should be noted that while the industry has been subject to major competition pressures it has also been a non-competitive industry comfortable with the quota protection it was afforded until a few years ago. Second, the report does not note the recent significant changes in exchange rates which may, in part, reduce the need for industry protection.

With respect to the specific remedies recommended in the report, I offer the following comments.

1. It would be desirable if the triggering price mechanism proposed could be temporary. Either the current cost disadvantage of the U.S. industry is something that can be remedied by new investment and other measures or U.S. consumers should not permanently be denied the benefits of low steel prices.

2. There are difficulties with the recommendation to use the $215 million Economic Development Assistance revolving fund for the support of the steel industry. Under Section 203 of the Public Works and Economic Development Act all loan collections and repayments received under the Act are deposited in an economic development revolving fund for use in extending further financial assistance and in covering necessary expenses, such as interest costs to the Treasury on the amount of outstanding loans. Under current practice, all proposed EDA program obligations are reviewed through the budget process and Congressional appropriations process. The use of the revolving fund -- while making additional amounts available for loans -- would diminish Executive Branch and Legislative Branch review of these funds.

There are many potential "uses" for these funds. We believe that until the use of the revolving fund is reviewed in the broader context of how it relates to economic development activities it should not be opened up for "special" one-time use. That action would establish an undesirable precedent which could lead to other such uses of the funds, without providing for appropriate review. If loan guarantees are necessary in this instance then we believe they should be provided through direct and explicit action and funded through EDA's regular programs.

3. Finally, I would add that while an announcement on Trade Adjustment Assistance will probably be required in the next several weeks, the program is unlikely to provide any substantive assistance to the steel or any other industry. It should not be expected to provide much relief either to the industry or to the Administration facing political pressures to provide assistance to steel.

STRAUSS
COMMENTS

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

NOV 29 1977

FROM : Robert S. Strauss RSS

SUBJECT: Comments on the Solomon Report

Summary

While I am very concerned about the risks involved in the trade relief recommendation and the general weakness of the actions recommended domestically, the Solomon program for steel seems to be as good as we can come up with at this time. Approval of the trigger price system would be the most important trade policy decision you have made to date in terms both of the trade coverage ($4 billion) and of the degree of departure from previous policy. This is unchartered territory and a great deal will depend on how skillfully the system is implemented.

We will have to move quickly and effectively to follow up on these recommendations and possibly develop additional actions, if the program is to be accepted by domestic steel interests and the Congress. I also feel that strong consideration should be given to including, as part of your announcement on the Solomon Report, a commitment to move ahead with international discussions on steel to develop longer run multilateral solutions to steel trade problems.

Trade Relief

The trigger price system appears to be the only remedy available to immediately deter widespread dumping of foreign steel without seriously impairing needed healthy competition from imports in the U.S. market. It is the centerpiece of the Solomon program and the only new action of substantial near-term economic benefit to the domestic industry and its workers.

At the same time there are substantial risks involved. We are still lacking some details on how the program will work but a number of potential problems are already clear.

First, other industries with similar problems (of which there are several) may well seek the same type of relief. Treasury has told us that it can prevent the spread of the trigger price system, through administrative discretion. I am concerned that denying other industries with legitimate problems similar relief might be quite difficult and inequitable.

Second, the system is such a significant departure from past practices that it is almost certain to be challenged in court. Treasury counsel feels it has a strong defense for its actions, however, the outcome of litigation is never certain.

Third, we can expect an adverse reaction in principle from smaller and newer foreign suppliers (particularly LDCs) who will feel that the system discriminates in favor of traditional suppliers because it prevents them from "buying in" to the U.S. market. They may choose to challenge the system by selling below the trigger price and by filing formal complaints in the GATT. At the moment, we do not have any answers as to how to accommodate their concerns.

Fourth, the trigger price levels will determine whether the "delicate consensus" among major domestic steel interests and the initial positive soundings with Japan and the EC will be sustained. If the prices are not high enough to have significant overall restrictive effect on imports or if there are not enough product categories to prevent upgrading of the product mix to avoid the restrictive effects (e.g. selling high value products below cost but above trigger prices) domestic producers will not withdraw their antidumping cases and will continue to file new ones. If the prices are not low enough to permit traditional suppliers to ship at historical levels, we will face a major international confrontation with our principal trading partners. The Report estimates that there will be a substantial restrictive effect on trade and we understand there may be a substantial margin of error in the estimate. If the restrictive effect were as large as the estimate indicates, there might be quite adverse foreign reaction, particularly from the EC. The fact is we will not know until we put the system in place.

We very likely will need to make adjustments to limit extreme effects in one direction or the other (which is why the plus or minus 5% flexibility band in setting trigger prices is such an essential feature of the program).

Given the risks in the trigger price system approach and Treasury's assessment of what would happen to trade if the antidumping cases are played out, I feel we should move ahead with international discussions on steel to explore possible longer run multilateral solutions to steel trade problems. Strong consideration should be given to making this a part of the announcement on the Solomon Report. It would also be advisable for us to take a hard look at the inadequacies of our antidumping law to see what modifications may be required to make it more workable and reasonable.

This week at the OECD in Paris, we will seek agreement on some broad quidelines for governmental actions on steel. In connection with our OECD efforts, it would be desirable to hold off public announcement of Solomon's recommendations and of your decisions on steel until after that meeting (which probably will end Wednesday) so that other governments can indicate they were consulted before we acted. The EC has expressed particular interest in our doing so.

It should be noted that the trigger price will not apply to all steel imports. Specifically, it will exclude carbon steel plate from Japan, which will be handled under normal antidumping procedures, and probably some minor items covered by current antidumping cases which will not be withdrawn. It will also exclude specialty steels covered by quotas. (We will have recommendations to you shortly on continuation of these quotas.) Together these exclusions probably represent close to ten percent of total steel imports. Also not covered are fabricated steel products (where steel is a major input cost) which may suffer large import increases because of the steel import restrictions (i.e. if steel cannot be dumped, products made from steel will be). It may be worth considering a special monitoring effort by Commerce to identify such problems.

Domestic Actions

The Report's recommendations on modernization, environmental policy, community and labor assistance, antitrust, technology, transportation, and a government-industry-labor committee will be read as insufficient. Together, however, they may have the important psychological impact of demonstrating the administration's seriousness of purpose and "good faith" commitment to assist the domestic steel industry, its workers, and the communities affected.

In terms of modernization, the principal boost to the industry would probably come from the trigger price system not from a minor change in equipment guideline life, the spin-off benefits of future Congressional tax reform actions, or even potential EDA loan guarantees (which may or may not ever be available to or actually be used by the steel companies). In the environmental policy area, we won't even know what can be done for six months. The recommendations in other areas also basically call for further study, with uncertain results.

Because of the uncertain or limited potential benefits of the domestic recommendations, we can expect a mixed reaction from domestic steel interests and the Congress. It is important therefore to follow up vigorously in fleshing out the recommendations in the Report and in searching for additional possibilities (e.g. employee safety regulations).

The major reason for the limited range and potential of the domestic policy recommendations, is a conscious decision to provide assistance solely through executive action, not through legislation. Special interest legislation for steel would be hard to justify and even harder to get through Congress without turning into a Christmas tree bill. Broader legislation, which would benefit steel, could be quite costly from a budgetary standpoint. The outcome of legislative action on any proposals we make would be somewhat unpredictable.

OTHER
COMMENTS

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

30 November 1977

TO: THE PRESIDENT

FROM: RICK HUTCHESON RH

SUBJECT: Additional Staff Comments

Frank Moore and Bob Lipshutz have no comment.

Charlie Schultze concurs in the Task Force's proposals for a target price system, and with the other recommendations. Schultze "would prefer to have no price restrictions imposed on international trade in steel. In light of the likelihood that the steel industry will make use of anti-dumping laws to establish restrictions on trade, however, I believe that the target price system devised by the Task Force is the best available solution to the problem at hand."

Henry Owen and Brzezinski concur with Solomon's plan, from a foreign policy standpoint, and believe that announcement of your decision should be deferred until at least December 2. "European Community representatives have told us that while your decision has to be a unilateral one, they hope it can be issued in a multilateral framework. This will help to avoid creating irresistible and damaging protectionist pressures from European steel interests. To this end, the main industrial countries are trying to agree on an OECD statement about steel policy, which would be issued Thursday, December 1. After that statement had been issued, your position could be announced without making waves in Europe."

Jack Watson indicates that Justice and Treasury have agreed on language which eliminates Justice Department concerns about the antitrust provisions of the Solomon report. (However, Stu Eizenstat's office indicates that serious legal questions regarding the proposed "reference price" system do remain unresolved.)

THE WHITE HOUSE

WASHINGTON

Date: November 23, 1977

MEMORANDUM

FOR ACTION:	FOR INFORMATION:
Stu Eizenstat attached	The Vice President
Jack Watson attached	Zbig Brzezinski - attached -
Jim McIntyre - by 11	
Charles Schultze concur - ~~[illegible]~~ attached	~~[illegible]~~
Bob Strauss - attached	
Frank Moore - nc	

FROM: Rick Hutcheson, Staff Secretary

RGL - nc - "nothing to add"

SUBJECT: Blumenthal memo dated 11/23/77 re Summary of EPG Task Force Report on Steel

Justice Dept. has major problems, need extension until Wed 11 - (per JW) - [illegible]

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 11:00 AM

DAY: Tuesday

DATE: November 29, 1977

ACTION REQUESTED:

X Your comments

Other:

chk w/ DOJ for time? Their comments

STAFF RESPONSE:

____ I concur.

____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO: THE PRESIDENT

FROM: Jack Watson Jack
Bruce Kirschenbaum

RE: Solomon Steel Report

The Justice Department (Antitrust Division) had serious concerns about the recommendations included in the attached Solomon report regarding antitrust problems of the industry. Justice and Treasury have now agreed upon new language which eliminates the issuance of any guidelines and, instead, just promises to handle merger and joint venture requests expeditiously.

The jointly agreed upon language will be included in later drafts of the Solomon report.

~~CONFIDENTIAL~~

7813

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~ GDS

November 29, 1977

INFORMATION

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN

Agree 2B.

SUBJECT: Steel

From a foreign policy standpoint, Tony Solomon's steel plan seems the right answer to a tough problem.

In his covering memo, Secretary Blumenthal asks two questions: Should the task force report be made public? And should you announce your position coincident with the report's release or several days thereafter.

I have no view on the first question. As to the second question: I believe that announcement of your decision should be deferred until at least Friday, December 2.

European Community representatives have told us that while your decision has to be a unilateral one, they hope it can be issued in a multilateral framework. This will help to avoid creating irresistible and damaging protectionist pressures from European steel interests. To this end, the main industrial countries are trying to agree on an OECD statement about steel policy, which would be issued Thursday, December 1. After that statement had been issued, your position could be announced without making waves in Europe.

~~CONFIDENTIAL~~ GDS

Jay 2/13/90

~~CONFIDENTIAL~~

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 30, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: Solomon Task Force Proposals

I would prefer to have no price restrictions imposed on international trade in steel. In light of the likelihood that the steel industry will make use of anti-dumping laws to establish restrictions on trade, however, I believe that the target price system devised by the Task Force is the best available solution to the problem at hand. Given this situation, I concur in the Task Force's proposals for a target price system. I also agree with the rest of Undersecretary Solomon's recommendations.

Date: November 23, 1977 Deal

MEMORANDUM 7813 STAFF fyi

FOR ACTION:

Stu Eizenstat
Jack Watson
Jim McIntyre
Charles Schultze
Bob Strauss

FOR INFORMATION:

The Vice President
Zbig Brzezinski

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Blumenthal memo dated 11/23/77 re Summary of EPG Task Force Report on Steel

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 11:00 AM

DAY: Tuesday

DATE: November 29, 1977

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE SECRETARY OF THE TREASURY
WASHINGTON

7813

NOV 23 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Summary of EPG Task Force Report on Steel

Attached is a relatively short but comprehensive summary of Tony Solomon's steel task force package of international and domestic recommendations. EPG members -- Charlie Schultze, Jim McIntyre, Dick Cooper, Bob Strauss, Juanita Kreps and Ray Marshall -- have received periodic briefings on development of the recommendations and related negotiations and have now given clearance on the package for submission to you for decision.

You have set an end-of November deadline for a public Report from the task force. If you give us your decisions on this summary by Monday, November 28, the task force can bring out the Report, reflecting those decisions, on schedule.

In addition to your substantive decisions, we need your instructions as to

- whether the task force Report should in fact be made public (it would be difficult to avoid)
- and whether you wish to announce your position coincident with the Report's release or several days thereafter.

As you instructed, the task force has put together a carefully balanced package of measures dealing with both the international and domestic aspects of the steel problem. After long discussions, the relevant domestic and international interests have accepted the general outlines of the package. (No details have been given to anyone outside the government.) However, if major elements of the package are substantially altered, this delicate consensus may not hold.

W. Michael Blumenthal

Attachment

REPORT FOR THE PRESIDENT
FROM
ANTHONY SOLOMON
CHAIRMAN OF THE SPECIAL TASK FORCE

The task force recommendations I am submitting to you are directed toward the attainment of three goals:

-- promoting a healthy, competitive domestic steel industry;

-- ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steelworkers and steel communities; and

-- relieving the industry from the pressures of imports below foreign costs without removing the healthy price discipline provided by fair import competition.

The program of recommendations requires no special legislation. The key industry representatives, the United Steelworkers' leadership, and our major foreign trading partners, EC and Japan, have all finally expressed after considerable discussion support in principle for the program. My Congressional briefings on the possible general shape of the program have gone very well (Senator Byrd, House Steel Caucus, key members of Senate Steel Caucus, the Vanik Ways and Means Trade Subcommittee). I expect to see Chairman Long and the Ribicoff Senate Finance Trade Subcommittee as well as meet with the House and Senate Steel Caucuses again.

The program of recommendations are divided into five categories or problem areas:

I. Trade Relief;

II. Modernization:

III. Rationalizing Environmental Policy and Procedures;

IV. Community and Labor Assistance; and

V. Other General Measures.

With respect to the trade relief procedure recommended, the U.S. importers will not be happy although they admit that this is less objectionable than a do-nothing policy under which the present massive anti-dumping cases will result in major disruptive cuts in imports. We should expect that as in the past there will be a court challenge from some group but our Counsel believes we have a strong defensible case.

I. Trade Relief -- Triggering Price "Fast Track" Antidumping System

Steel imports are currently accounting for about 20% of domestic consumption. The industry contends this level of penetration is due largely to unfair trade practices. The industry is pressing for protection against unfair trade practices, particularly from dumping. It claims that if trade is fair it can compete with imports to the U.S. market.

Recommendation: The Department of Treasury, in administering the Antidumping Act, will set a Triggering Price for initiating antidumping investigations for steel mill products imported into the U.S.

The Triggering Price permits Treasury to organize its resources so it can take accelerated action to remedy unfair trading practices relating to steel products. It does not detract from any of the legal rights that foreign producers or the domestic steel industry presently enjoy under the Antidumping Act. However, the success of the Triggering Price approach in dealing with the steel problem will depend to a considerable extent on the domestic industry's restraint in bringing new antidumping petitions and its willingness to withdraw existing petitions. The industry understands this point and will act responsibly if the approach appears to have a good chance of working.

- The Triggering Price will be set by Treasury within 5% of the full cost of production plus transportation of the most efficient producers, currently the Japanese steel industry. It will be reviewed quarterly. The 5% flexibility recognizes the complexities of administering a system which seeks to remedy injury from unfair trade practices of foreign producers without shutting out appropriate price competition from them.

- The Triggering Price would be applied universally to all steel imports.

- Imports would be closely monitored by the U.S. Customs Service.

- Substantial sales under the Triggering Price would result in expedited Treasury investigations and accelerated application of appropriate remedies, including possible retroactive application of antidumping duties.

The Triggering Price and its associated fast track remedial procedures can be instituted within 60 days, and is consistent with existing law and with our international obligations.

The Triggering Price technique should result in substantial elimination of the injury the steel industry is presently suffering from unfair trade practices. It can do so without eliminating all possibility of price competition -- an element missing in solutions featuring quantitative restraints. Moreover, the Triggering Price technique would not require the effective exclusion of the bulk of steel imports from Europe which will probably occur if pending and projected antidumping petitions against European producers continue to be prosecuted.

Implementation of the Triggering Price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the Triggering Price approach will undoubtedly not be perfect; but experience in working under the approach should teach us how to cure its inadequacies.

We have concluded that if unfair competition, as defined by the law, is effectively deterred through the "Fast Track - Trigger Price System" that the industry can recapture a substantial share of the market. Necessarily rough calculations indicate that, absent price increases significantly out-of-line with cost increases, the industry should recapture approximately 6 million tons of production represented by a reduction in imports. This represents a decline from the current 20% level of total consumption accounted for by imports to a level of 14% (which is closer to the historical average of the last decade).

The increased volume should raise industry earnings by $900 million and result in the employment of 25,000 or more steelworkers than would be the case if current conditions continued. This should also result in a rise in the industry's rates of capacity utilization to 85%, which is relatively high in comparison to the industry's experience over the last decade.

II. Modernization

A. The industry has a serious cash flow problem. Earnings are not sufficient to meet its captial requirements for modernization, replacement and environmental controls or for access to private capital on the scale needed. Indeed this year there will be no earnings for the industry as a whole.

We estimate the industry needs to spend between $3.5 and $4.0 billion annually to modernize, and to maintain and replace existing equipment. Between $0.5 and $1 billion of these expenditures are allotted to investment in pollution control equipment.

The industry's cash flow in 1975 and 1976 was $3.0 billion. It will fall to $2.2 billion in 1977. There is therefore a substantial gap of $1.3 to $1.8 billion between current cash flow before dividend payments and investment needs.

The increased earnings from the application of the reference price system should yield an increase of $900 million in earnings. However, a gap of between $0.4 and $0.9 billion will remain even before the payment of dividends. Assuming historical levels of dividend payoffs, $600 million annually, the gap would be between $1 and $1.5 billion.

The general tax package includes a number of measures which on net will stimulate investment and increase cash flow in the steel industry as well as in other industries. We estimate the net effect will be to increase cash flow by an average of $150 million annually from 1979 through 1982.

Recommendation: The Internal Revenue Service (IRS) through administrative action reduce the guideline life of steel equipment from its current level of 18 years to 15 years. These more liberal guidelines will add $18 million to industry cash flow in 1978 and increase to $90 million by 1982.

A reduction in the guideline life in combination with the various plus and minus measures of your new general tax package will increase the industry's cash flow by an average of approximately $200 million annually from 1979 through 1982.

Even with these tax measures the industry will still have a gap of between $0.8 and $1.3 billion between internal funds and capital requirements.

The cash flow assistance that the Federal Government would make available to the steel industry as such is small, i.e., an average of $40 to $50 million annually in liberalized depreciation allowances. However, we estimate that when it is combined with the improved earnings and your general tax program for next year, the bulk of the industry could then be in a position to secure from private capital markets the remaining funds necessary for modernization.

Industry representatives have agreed to make public statements committing the increase in cash flow for stepped-up modernization of their steel plant and equipment. We estimate that if the industry could implement its current plans for modernization their production costs would decline by $6 to $9 per ton. This is a small but significant reduction. The Council on Wage & Price Stability study indicated that the differential between U.S. and Japanese costs in the U.S. market was not much larger.

B. There are smaller integrated and nonintegrated steel firms who are extremely depressed financially and who would benefit only marginally from the above measures. These firms are located in areas where most of the recent plant closings and cutbacks occurred. They are in serious trouble and may close if additional help is not provided. Closings or cutbacks of these firms would exacerbate the already depressed conditions in these areas, and remove a source of competition for the larger integrated firms. These firms currently employ 83,000 workers and account for 16% of total industry raw steel production.

Recommendation: You direct the release of a $215 million Economic Development Assistance revolving fund in the Office of Management and Budget as funds for industrial loan guarantees.

Only firms experiencing (1) serious financial problems, with little or no access to capital markets, (2) who are located in areas of high and rising unemployment or threatened massive layoffs and (3) who have viable plans to modernize would qualify for such guarantees on a case-by-case examination.

Under the Economic Development Administration's (EDA) formula the $215 million could support $1 billion in loan guarantees. However, we estimate that the maximum use of these guarantees over the next four years could cumulate to no more than $500 million and might be less.

III. Rationalizing Environmental Policy and Procedures

The steel industry is a major polluter. The costs of complying with environmental regulations are substantial and will rise in the near term as the industry is forced to bring older facilities into compliance. This is also true for other industries. We do not believe that the current financial plight of the industry should deter us in seeking a cleaner environment.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

Recommendations:

-- No relaxation of environmental goals.

-- No differential treatment in the regulation or enforcement for the steel industry.

-- However we recommend that the EPA reexamine its regulations and its regulatory processes to ensure that they are economically efficient and do not present any unnecessary barriers to modernization.

The EPA Administrator has agreed to conduct this reexamination and has already begun to do so. There is no need therefore for you to formally request that such a reexamination be conducted.

Recognizing that some of these regulatory reform issues have macroeconomic significance, EPA has asked CEA to assist with the analyses.

-- EPA will deliver a progress report that will reflect CEA's views to you in six months. The study will cover such areas as:

-- the policies that apply to new sources locating in non-attainment areas, including the "offset" policies;

-- issuance of future permits plant wide vs. process by process; and

-- the appropriate economic considerations for New Source Performance Standards.

IV. Community and Labor Assistance

A. The depressed conditions in the U.S. steel industry and recent plant closings and shutdowns have been largely responsible for the reduction in total industry employment from 445,000 to 425,000 since 1976. Approximately 57,000 steelworkers are now receiving trade adjustment assistance.

The impact is exaggerated because it is concentrated regionally. Almost 55% of the laid off steelworkers are located in Ohio, Pennsylvania and New York, and the recent plant closings and cutbacks are confined to these areas.

Recommendation: You direct the EDA of the Department of Commerce to dedicate $20 million in funds under their Title XI authority to combat actual or threatened unemployment in affected steel communities.

This would be in addition to the possible qualification of these communities' requests for assistance under Title I -- regular public works; and Title III -- technical assistance.

B. The Department of Energy and the EPA are currently reviewing a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

Recommendation: You establish an interagency task force consisting of the Department of Energy, the Environmental Protection Agency, and the Department of Commerce to review and evaluate alternative uses for abandoned steel facilities and report to you their findings by June 30, 1978.

C. In the area of mass layoffs two important groups with major community and worker support, the Youngstown Religious Coalition and the Steel Community Coalition, are combining their efforts to conduct a feasibility study of community and/or worker takeover of abandoned steel facilities in Youngstown, Ohio. We believe that in selective cases and under certain conditions a community or worker takeover, with sufficient modernization, may prove to be realistic and economically viable. There is no way of prejudging particular cases without hardheaded feasibility studies.

Recommendation: You direct the EDA supplemented as appropriate by the Department of Housing and Urban Development to give consideration in their analysis of funding requests to economically viable projects involving community and/or worker takeover of abandoned steel facilities.

D. Action on the proposed Trade Adjustment Assistance program would help meet problems primarily in the communities and secondarily to the labor force heavily impacted by steel problems, and give guidance to Congressional consideration of legislation being proposed by various members of the Steel Caucus.

Recommendation: We recommend that a final decision be made, before the Congress resumes in January, on the exact content of the Trade Adjustment Assistance package presently before you.

V. Other General Measures

Our investigation exposed several areas where small but significant changes in existing policies or practices, or their clarification, could increase the efficiency of weaker steel firms, thus promoting competition and stabilizing employment in the industry. These include: joint venture and merger policies; funding of R&D; transportation systems; and industry, labor and government cooperation.

A. Several recent studies show that joint ventures in various steel processes (furnace melt capacity, coke ovens) could reduce costs, lower energy consumption, and make it easier to meet environmental standards. Mergers of smaller, weaker firms could lead to increased efficiency as a result of scale economies, and thus promote competition. The steel industry has expressed increased interest in both joint ventures and mergers, but there is widespread feeling that government policies in both of these areas need clarification.

> Recommendation: You request the Department of Justice to issue guidelines for (1) joint ventures in steel processes (2) and to the extent appropriate mergers in the steel industry and (3) to handle requests for joint ventures and mergers by steel companies expeditiously.

B. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percent of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden to individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is a basic important industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending. This compares with Federal contributions accounting for 9% of the R&D expenditures of the chemical industry, 14% of machinery industry expenditures, 47% of electrical equipment, and 78% of aircraft spending.

Recommendation: You request the Department of Justice to issue specific guidelines for joint ventures in steel industry R&D directed toward energy savings and pollution abatement.

Recommendation: You also request the Office of Management and Budget and the Office of Science and Technology to examine the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology.

C. Transportation costs are an important cost item for steel and for other basic industries, particularly those located at inland sites. Currently rail service is more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the system. For example, iron ore is transported to Youngstown by truck rather than rail because of the cost and time savings. The concept of unit ore trains is an alternative now under investigation that would lower costs.

Recommendation: You establish a task force to review transportation systems serving the steel industry that will report to you on what regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

D. There is a need to continue cooperation and coordination of this program between the government, the industry, and labor.

<u>Recommendation</u>: <u>We recommend that you establish a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry</u>.

THE PRESIDENT HAS SEEN.

Office of the Attorney General
Washington, D.C. 20530

November 30, 1977

C

MEMORANDUM FOR: The President

FROM: The Attorney General

SUBJECT: Number of Lawyers at the Department of Justice

At our budget session with you this afternoon, I indicated that the Department of Justice had 3,500 attorneys currently on board. OMB stated that the figure was 6,881.

This discrepancy occurred because OMB was referring to the <u>total strength</u> of our litigative organizations, including secretaries and paralegals along with the attorneys. As of November 30, we have 3,482 attorneys on board, with 1,735 of these located in U.S. Attorney offices around the country.

Griffin B. Bell

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Jody Powell

RE: ANNOUNCEMENT OF FEDERAL DAM SAFETY

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
	/	POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Stu

THE WHITE HOUSE

WASHINGTON

November 29, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Press Conference, November 30, 1977

Attached for tomorrow's press conference are suggested domestic questions and answers and our recent memorandum on social security.

I understand that Jody has given you the suggested opening statement that we helped prepare on dam safety.

If you decide not to use the opening statement, and do not refer to dam safety in a question, we plan to issue an announcement of the program tomorrow. do so

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

EYES ONLY

C

November 29, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze

Subject: Index of Leading Indicators CLS

The Commerce Department will publish tomorrow (Wednesday, November 30) at 10:00 a.m., the index of leading indicators for October.

The news is relatively good. The index increased 0.7 percent in October, and earlier estimates for August and September were revised upward. The index has now increased four months in a row, following declines in May and June.

This news will probably receive considerable attention in the press. As you know, however, I do not put much stock in the forecasting value of the leading indicators. The October increase, for example, stems principally from the very large October increase in M_1, the narrowly-defined money stock, and this has virtually no meaning for the near-term trend of economic activity.

One element of the October increase in the index of leading indicators is good news: the layoff rate in manufacturing went down last month -- the first decline since last spring. This is one of several indications in recent statistics that the pace of activity may be picking up in the fourth quarter.

STATEMENT RE DEATH
OF SENATOR MCCLELLAN
NOVEMBER 30, 1977

THE PRESIDENT HAS SEEN.

THE VICE PRESIDENT AND MY WIFE ROSALYNN WILL BE DEPARTING SHORTLY TO TRAVEL TO ARKANSAS AS MY REPRESENTATIVES AT THE FUNERAL OF A GIFTED LAWMAKER, SENATOR JOHN L. MCCLELLAN.

THE UNEXPECTED DEATH OF SENATOR MCCLELLAN DEPRIVES THE SENATE OF A RESOLUTE AND GIFTED MAN. ~~LAWMAKER.~~ DURING HIS 39 YEARS OF SERVICE ON CAPITOL HILL -- FOUR IN THE HOUSE OF REPRESENTATIVES

AND ALMOST 35 IN THE SENATE -- HE PERSISTENTLY SPOKE OUT FOR A STRONG NATIONAL DEFENSE AND UPHELD INTEGRITY IN THE OPERATIONS OF GOVERNMENT. THE ECONOMIC DEVELOPMENT OF THE ARKANSAS RIVER IS AN ACHIEVEMENT FOR WHICH HE WILL BE LONG REMEMBERED, AND IN WHICH HE TOOK A DEEP PERSONAL PRIDE.

I AM ESPECIALLY GRATEFUL FOR HIS WISE AND GENEROUS COUNSEL DURING THE EARLY MONTHS OF MY ADMINISTRATION.

[IN THE DISTINGUISHED HISTORY OF THE SENATE, ONLY EIGHT MEMBERS HAVE EVER SERVED LONGER THAN JOHN MCCLELLAN.]

HIS PASSING IS A LOSS TO THE CONGRESS AND TO THE NATION.

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Bunny Mitchell
Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Jim McIntyre

RE: MINORITY OWNERSHIP OF BROADCASTING OUTLETS

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
✓		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
	✓	~~LANCE~~ Jm
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
✓		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

11/29/77

Mr. President:

No objections were received to Stu's recommendation.

Rick

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BUNNY MITCHELL
RICK NEUSTADT

SUBJECT: Minority Ownership of Broadcasting Outlets

At the recent meeting with business leaders, I responded to the question on minority ownership of broadcasting outlets by indicating that you had already approved a program to encourage an increase in such ownership. I thought you might be interested in the current status of that program:

--the Small Business Administration and the Economic Development Administration have agreed to change their loan programs to include broadcasting and cable, although they have not provided, as we had hoped, special consideration for the "socially and economically disadvantaged".

--The Department of Defense, the Postal Service, and Amtrak are taking steps to increase use of minority-owned media for their paid advertising and OMB is developing regulations to assure government-wide action on advertising;

--OTP (which will remain in existence for another month) is drafting an FCC filing suggesting ways, without quotas, to give preferences to minority applicants for licenses;

--the major broadcasting and advertising industry associations have agreed to form task forces to consider steps such as privately raised loan funds.

We suggest a low-key announcement of this program in about two weeks, when the FCC filing will be ready.

Approve ✓ Disapprove ________

JC

THE WHITE HOUSE

WASHINGTON

McI you have comments, esp if Tues

MEMORANDUM

Date: November 23, 1977

FOR ACTION:

Jack Watson
Jim McIntyre ~ attached

FOR INFORMATION:

The Vice President
Frank Moore (Les Francis) concurs
Jody Powell
Bob Lipshutz — (former team w/ Hollings)

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Minority Ownership of Broadcasting Outlets

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 11:00 AM

DAY: Tuesday

DATE: November 29, 1977

no comments necessary

ACTION REQUESTED:

_x_ **Your comments**

Other:

STAFF RESPONSE:

____ **I concur.** ____ **No comment.**

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

X	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	X	MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
	X	LIPSHUTZ
	X	MOORE
	X	POWELL
X		WATSON
X		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

NOV 29 1977

MEMORANDUM FOR: RICK HUTCHESON

THRU: W. BOWMAN CUTTER

FROM: DENNIS O. GREEN

SUBJECT: Minority Ownership of Broadcasting Outlets

We have the following comments on the draft Presidential memorandum concerning minority ownership of broadcasting outlets:

- SBA has proposed a change in its loan programs to accommodate broadcasting and cable television firms. It should be noted that, the proposed policy is based on the assumption that providing such loans will not result in any inappropriate Government interference in the programming and operation of these firms. The critical question which has been raised with respect to this issue involves whether a broadcasting firm in a default or near-default situation on an SBA loan could be placed in a compromising position.

- SBA informs us that they published a supplementary comment in the Federal Register on November 25, 1977, which emphasizes the agency's conviction that, in fact, the expanded eligibility to broadcast and cable television firms "will be particularly helpful to small business concerns owned and controlled by socially or economically disadvantaged persons."

- Postal officials have indicated that they are considering possible changes to their contract regulations which would result in increased use of minority-owned media for paid advertising. The Service estimates its total advertising expenditure at around $4 million annually since 1975. The Postal Service estimates that $18,300 was awarded to minority newspapers in 1975 and $34,000 awarded to minority-owned radio stations in 1976.

- The Office of Telecommunications Policy is working on a draft filing to the Federal Communications Commission which would enhance opportunities for minority ownership and equity participation in the telecommunications industries. The filing will include proposals to accomplish this by modifying FCC regulations involving industry management structure and through certain tax programs. OTP expects this filing to be completed by the end of January 1978.

Dennis O. Green
Associate Director for
Economics and Government

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Jody Powell

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Jim Fallows
Hamilton Jordan

RE: PANAMA CANAL SPEECH

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
	/	JORDAN
		LIPSHUTZ
		MOORE
/		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
	/	FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Jody J

THE WHITE HOUSE

WASHINGTON

November 29, 1977

MEMORANDUM TO THE PRESIDENT

FROM: JODY POWELL
JIM FALLOWS

ABOUT: Panama Canal Speech

We understand you are getting pressure from the Congress to give a televised Panama speech next month, before the foreign trip. We think this would be a serious mistake. not true

Congressional aides have been making this same point to us; they want you to warm up the public as soon as possible, to reduce the home-state opposition their Senators are hearing. But this next month is a terrible time to make that appeal. No one is interested in Panama now: it's Christmas time, the energy bill is still pending, and between the Middle East and your trip there is all the foreign news people can handle. There is also no news hook for the speech, no obvious reason to be bothering people about Panama now. If you give the speech, it's likely to disappear without a trace. That will do more damage than if you hadn't given it at all, since it will make you look ineffective with the public, and since it will create resistance to giving another speech later on, when the Senate is closer to making its decision.

We strongly recommend that you postpone the speech until next year, when people will be more willing to pay attention to it, and when the connection to the Senate's decision will be more apparent. This is what Sen Byrd wants

THE WHITE HOUSE
WASHINGTON
November 30, 1977

The Vice President
Hamilton Jordan

The attached is forwarded to you for your information.

Rick Hutcheson

RE: PANAMA CANAL SPEECH

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

RE: THE MINIMUM TAX

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

Stu I agree - Why was Larry so adamant?

J

THE WHITE HOUSE

WASHINGTON

November 30, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BOB GINSBURG

SUBJECT: The Minimum Tax

We think there may have been some confusion in the tax meeting yesterday between (1) Treasury's current proposal to tighten the minimum tax rules by eliminating the deduction for taxes paid on regular income and (2) our additional proposal to increase the minimum tax rate from 15% to 20%.

Treasury's current proposal will raise $211 million at 1976 levels of income and $282 million in FY 1981. We think the Treasury proposal is a good reform and we support it. But we would also increase the minimum tax rate from 15% to 20%. That would raise an additional $450 million at 1976 levels of income ($530 million if applied to corporations as well as individuals) and $600 million in FY 1981. Approximately 70% of this additional revenue would come from the $100,000 and over income classes. Our proposal would increase the top rate of taxation on capital gains from approximately 40% under the current Treasury recommendations to approximately 42.5%.

The minimum tax is very progressive because it hits only items of preference income which are attributable primarily to upper income taxpayers and because it excludes $10,000 of preference income from the base. Accordingly, any taxpayer can obtain up to $10,000 in capital gains without having to pay the minimum tax -- that is why so few low and middle income taxpayers, even those who have some capital gains, are affected by the minimum tax.

THE WHITE HOUSE
WASHINGTON

November 30, 1977

The Vice President
Jim McIntyre
Charles Schultze

The attached is forwarded to you for your information.

Rick Hutcheson

RE: THE MINIMUM WAGE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

11/30/77

Mr. President:

re: Memos Not Submitted

Brzezinski/Henry Owen sent you a church bulletin suggesting that Psalm 122 is an appropriate prayer for peace in the Middle East, and including a review of the film, "Oh, God."

Brzezinski sent you a further comment on the article by A.J.P. Taylor.

Rick

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Stu Eizenstat
Bob Lipshutz

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

CAB DECISION: Docket 31711

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
/		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
	/	LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

LAST DAY FOR ACTION: Thursday Dec. 1

THE WHITE HOUSE

WASHINGTON

November 28, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BOB LIPSHUTZ Bob
STU EIZENSTAT Stu

RE: CAB Decision Re Suspending Super-APEX Fares Proposed by Air Canada (Docket 31711)

This is another in a series of CAB decisions suspending proposed Super-APEX, discount fares pending negotiation of ad hoc agreements which would permit future suspension if the fares prove predatory.

In the present case, the suspension concerns Super-APEX fares proposed by Air Canada and would entail 50 percent discounts between New York and Europe. As in previous cases, the Board's suspension will be lifted as soon as the State Department concludes an appropriate ad hoc agreement with the Canadian government.

We recommend that you approve the Board's order by taking no action. (The last day for action is December 1.)

✓ Approve ______ Disapprove

JC

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Bob Lipshutz
The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

POSSIBLE EXECUTIVE PRIVILEGE
QUESTION ARISING BETWEEN TREASURY
AND ROSENTHAL

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
✓		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

November 30, 1977

Good
C

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Lipshutz RJL

SUBJECT: Possible "Executive Privilege" Question Arising Between the Treasury Department and Ben Rosenthal Relating to the Income Tax Treatment of Payments Made by Oil Companies to Foreign Countries

Pursuant to my memorandum of November 25 to you, along with a November 23 memorandum from me to Stu Eizenstat, and in accordance with your direction, I have reviewed this matter with both Cy Vance and the Vice President.

When the Treasury Department prepares its final decision and assuming that it makes the decision which we anticipate, the Treasury Department and the State Department will coordinate very carefully in handling the announcement of this decision and the necessary followup with the affected countries.

In the meantime, the Internal Revenue Commissioner testified on the subject on Tuesday of this week. He advised the Committee that Internal Revenue Service had made a recommendation to the Treasury but that it could not, as a matter of policy, reveal what that recommendation was while the matter still was pending.

The Committee agreed that it would not press the Treasury Department or the Internal Revenue Service for the documents which it had requested, but that it would reconvene the Committee on January 17. At that time, the Chairman of the Committee stated, it would expect action to have been taken on this matter.

Thus, the "Executive Privilege" question has been finessed successfully at least for the next seven weeks.

I will keep you advised.

cc: The Vice President
Honorable Cyrus Vance
Honorable Michael Blumenthal
Stu Eizenstat
Jack Watson

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Frank Moore
Tim Kraft

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President

RE: MEETING - CONGRESS - ENERGY

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

November 30, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE F.M./BR

Yesterday afternoon, Congressmen Moffett, Sharp and Eckhardt held a briefing to bring interested House Members up-to-date on what has happened in the conferences in the last few weeks. After describing the situation and the outlines of compromises that have been talked about, the Members who had not been in town were asked to react. The reactions ranged from total disapproval of the COET tax to equal disapproval of giving the tax back to the oil companies. There was further talk of voting against the final bill on the floor.

I believe it would be useful to meet briefly with a group of these House Members (25-30) late Thursday afternoon or Friday morning (12/1/ or 12/2). This would give you an opportunity to reaffirm the necessity of the tax, to tell the group that <u>some</u> compromise is going to have to be made, and restate the conditions under which you would sign a bill.

In addition, this would enable the Members to tell their constituents they had discussed the issue with the President and would bolster their continued support for our position.

Jim Schlesinger, the Speaker and Chairman Ashley agree that the meeting is probably unavoidable since this group represents a sufficient number in the House to jeopardize the bill, and that the nearer the meeting is to the compromise, the better. I recommend that you meet with the group this week.

APPROVE ✓

DISAPPROVE ______

If Tim can find the time. Not a long meeting J

THE WHITE HOUSE
WASHINGTON

November 30, 1977

The Attorney General

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

NATIONAL COMMISSION FOR THE REVIEW OF ANTITRUST LAWS AND PROCEDURES

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
✓	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	✓	MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
✓		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

✓		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

November 30, 1977

Jim McIntyre
Bob Lipshutz

The attached was returned in the President's outbox today and is forwarded to you for your information. The signed original has been given to Bob Linder for appropriate handling.

Rick Hutcheson

cc: Bob Linder

RE: E.O. ESTABLISHING THE NATIONAL COMMISSION FOR THE REVIEW OF ANTITURST LAWS AND PROCEDURES

THE WHITE HOUSE
WASHINGTON

(E.O. only)

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

cc: The A.G.

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
/		LIPSHUTZ
		MOORE
		POWELL
		WATSON
/		~~LANCE~~ JM
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

EXECUTIVE ORDER

ESTABLISHING THE NATIONAL COMMISSION FOR THE REVIEW OF ANTITRUST LAWS AND PROCEDURES

By virtue of the authority vested in me by the Constitution and statutes of the United States of America, and as President of the United States of America, in accordance with the provisions of the Federal Advisory Committee Act (5 U.S.C. App. I), it is hereby ordered as follows:

Section 1. Establishment. (a) There is hereby established the National Commission for the Review of Antitrust Laws and Procedures, hereafter referred to as the Commission.

(b) The Commission shall consist of fifteen members to be appointed by the President and shall include:

(1) The Assistant Attorney General in charge of the Antitrust Division of the Department of Justice.

(2) The Chairman of the Federal Trade Commission.

(3) The Chairman of one other appropriate independent regulatory agency.

(4) Three members of the Senate recommended by the President of the Senate.

(5) Three members of the House of Representatives recommended by the Speaker of the House of Representatives.

(6) One judge of a United States District Court.

(7) Five persons from the private sector.

(c) The President shall designate a Chairman or Co-chairmen from among the members of the Commission.

Sec. 2. Functions of the Commission. (a) The Commission shall, within the framework of existing antitrust laws (as that term is defined in 15 U.S.C. 12), study and make recommendations on the following subjects:

(1) Revision of procedural and substantive rules of law needed to expedite the resolution of complex antitrust cases and development of proposals for making the remedies available in such cases more effective, including:

(i) creation of a roster of district court judges knowledgeable regarding antitrust law and large-case problems to whom such cases may be assigned;

(ii) revision of pleading requirements in order to narrow as quickly and precisely as possible the scope of contested issues of fact and law;

(iii) revision of discovery practices in order to limit expensive and time-consuming inquiry into areas not germane to contested issues;

(iv) the desirability of a grant of judicial authority to restrict and penalize dilatory practices through control of issue formulation and imposition of sanctions for unnecessary delays or failures to cooperate;

(v) amendment of evidentiary practices to expedite introduction of testimony and exhibits at trial;

(vi) simplification of the standards required to establish attempted monopolization in suits brought by the United States under Section 2 of the Sherman Act;

(vii) consideration of structural relief for antitrust violations, and of nonjudicial alternatives for resolution of complex antitrust issues; and

(2) the desirability of retaining the various exemptions and immunities from the antitrust laws, including exemptions for regulated industries and exemptions created by State laws that inhibit competition.

(b) The Commission shall conclude its work not later than six months from the date the last member is appointed and shall submit a final report to the President and the Attorney General within thirty days thereafter. The Commission shall terminate thirty days after submitting its final report.

Sec. 3. Administrative Matters. (a) The Commission may request any Federal agency to furnish it with such information, advice, and services as may be useful for carrying out its functions under this Order.

(b) The Department of Justice shall furnish to the Commission a staff director and any necessary staff, supplies, facilities and other administrative services. Such funds as are necessary for ordinary operations of the Commission, to the extent permitted by law, shall be provided from the appropriations available to the Department of Justice.

(c) The Commission may procure, subject to the availability of funds, the temporary professional services of individuals to assist in its work, in accordance with the provisions of Section 3109 of Title 5 of the United States Code.

(d) Members of the Commission shall receive no compensation from the United States by virtue of their service on the Commission but shall be entitled to receive travel expenses, including per diem in lieu of subsistence, as authorized by law (5 U.S.C. 5702 and 5703).

(e) Notwithstanding the provisions of any other Executive order, the functions of the President under the Federal Advisory Committee Act (5 U.S.C. App. 1), except that of reporting annually to the Congress, which are applicable to the Commission shall be performed by the Attorney General in accordance with guidelines and procedures established by the Office of Management and Budget.

Jimmy Carter

THE WHITE HOUSE,

Tax reform

C

> Progressivity vs SEPT
> Options re size of cut
> Anti-inflation = Tax cut (Okun)
> Investment tax credit (10% permanent + 2%)
liberize application of → 90%
> Theater, sports, first class travel tickets
> Group legal insurance
> Minimum tax 15% → 20%
> Meals < 50% / 15⁰⁰
> Deferral of foreign source income
> Corporate rate cuts
> Degree of simplification 85% standard
> Personal interest deduction 14 mil
~~State~~
> Announcement
> Any planned increase to be voted in 1978?
> Business/personal ratio (p 7)
Recapture of DISC

1.8 1% ITC
2.0 1% Corporate tax

Business confidence
Only nation in world
Falling # inc foreign invest - trade balance
No inc in domestic jobs
Primarily developing nations

a) Several options re size of cut
b) Anti-inflation
c) Progressivity vs Sept (Stu p3)

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 23 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Possible Modification in Tax Reform

The Vice President, Charlie Schultze, Jim McIntyre, Stu Eizenstat, and I have reached near total agreement on a revised package of tax reforms and cuts for presentation to the Congress in January.

We seek your reaction to this revised program so that I can begin intensive consultations about it on the Hill. My objective is to persuade Chairmen Long and Ullman, and other key Congressional leaders, to state their support in January for expeditious passage of the essential elements of the program. The attached memoranda are:

- Part One presents an overview of the revised tax reform program. Also included are revenue estimates (Tables 6 and 6a).

- Part Two presents in summary form the specific recommendations in the revised tax reform proposals. For comparative purposes the recommendations we submitted to you on September 23 are included as a benchmark. This table, in the column under our current recommendations, points out the few items of remaining disagreements among the staffs above with the heading "Difference".

- Part Three is a commentary on each of the proposals.

Need to Present a Slimmed Down Package

We need a tax package that will, by its very announcement, rally business confidence and private investment, and that is simple enough to pass the Congress before the 1978 elections. To assure this result we need a slimmed down tax package at this time.

- Businessmen believe long term investment is stagnating because of widespread uncertainty over the course of economic policy. To get private capital formation back on track, we need a simple, passable tax bill, emphasizing permanent individual and business tax cuts, as the centerpiece to our 1978 economic policy.

- We may need to advance the 1979 tax cuts, from the bill, into the latter half of 1978. Otherwise, it appears that the 1978 real growth rate will fall a point, or perhaps even two, below our 5 percent objective. ?

- The September tax reform package is far too sweeping and controversial to pass Congress between January, 1978 and the elections. Moreover, mere announcement of it would greatly unsettle business confidence and thus deliver another blow of uncertainty to private investment plans.

- The climate on the Hill today is one of reluctance to engage in a major tax reform battle in 1978. After struggling with the Tax Reform Act of 1976, and with our Social Security and energy bills, even liberal members profess unwillingness to undertake major tax reform on the eve of the 1978 elections. If we sent up the September package, the Congress would likely set it aside and construct its own package of tax cuts, shorn of all reform. The Administration would, in short, have greatly reduced influence over the direction of tax policy.

We have considered, but rejected, a package of cuts without reform. You are committed to comprehensive tax reform, and our revised program is accordingly designed as solid down payment on that pledge. But the package is now sufficiently simple and manageable that its core elements have a realistic chance of timely enactment.

Our 1978 economic policy--with the tax message at the center--should aim to set a steady, long term course for the economy, so that businessmen and consumers can plan confidently for the future. Therefore, the tax announcement should not indicate that we are committed to a "second" tax reform package in 1979 or 1980: this would immediately undermine the quest for stability and certainty.

W. Michael Blumenthal

Attachments

Part One - Overview of Revised Tax Reform

A. Objectives of Revised Program

We believe the basic objectives of current tax reform can remain the same as the objectives we have discussed in the past but (1) with a greater emphasis on simplification and the economy, and (2) with a recognition that full accomplishment of some of the objectives must await a later period when the economy is stronger. On this basis, current tax reform might emphasize:

- Simplification. High priority, as indicated before, could be given to individual tax reforms that would simplify tax returns for the average taxpayer. Despite this we do not include the simplification which would be achieved by foregoing a special category for capital gains. Some individual tax reform that improves equity but at the same time adds complexity--for example withholding on interest--could be held until the next proposals.

- Capital Formation and Improvement of the Economy. Our special concern with the economy in the period ahead increases the importance of emphasizing the tax reductions, including possibly an individual tax reduction in 1978: (a) This could be provided by implementing one-half of the tax cut for 1978 by changing withholding rates beginning July 1. (b) Additional reductions in 1978 could also be made for business. (c) Individual and business tax cuts could emphasize the needed stimulus for regaining full employment and correcting the imbalance between the productive capacity and the labor force. (d) Taxing capital gains is bypassed to improve the market. (e) In the longer run, the business reduction could increase the share of national output which goes for investment. Stability for investment might be emphasized.

- Equity and Fairness. As you have stated on many occasions, the desirability of eliminating, or reducing, tax preferences should be an important objective of this package. Despite the postponement of many of the reform measures, enough of them (such as the proposed tax treatment of entertainment and meals, real estate, and DISC) are continued in this package so that there will be no general view that we have "run out" on tax reform.

B. Structure of Revised Program

Principal changes are items such as the following:

Capital Gains and Double Taxation

- No attempt is made to eliminate the concept of capital gains at this time. This is based upon our testing of the business point of view that this is a major area of controversy in our earlier proposals.

- However, the stage is set for action at a later time on the taxation of capital gains. For example, the 70 percent top rate is reduced only to 65 percent, rather than 50 percent. The minimum tax will be stiffened by denying the deduction of regular taxes in computing the minimum tax thereby retaining the maximum tax on capital gains at about 40 percent, even though individual rates are reduced. ?

- No change is proposed in the current package for the double taxation problem. Since, in part, double tax relief would have offset the negative impact on capital formation resulting from eliminating the special preference for capital gains, the two need to be presented together. In addition, double tax relief, although a desirable change, is controversial in some business and tax reform groups. As a result, it appears better to postpone double tax relief until the question of capital gains taxation may be dealt with.

Average Taxpayers

- The revised program retains a strong emphasis on simplicity and fairness for the average taxpayer. But the attendant revenue losses are scaled back somewhat.

adequate progressivity?

- Rate schedule: The revised schedule would improve progressivity by running from 12 percent to 65 percent, as opposed to 14 percent to 70 percent in current law and 10 percent to 50 percent in the September program.

- Per capita credit: The revised program would improve progressivity and simplicity by replacing the $750 exemption with a $240 per capita credit, as opposed to $250 in the September program.

- Working spouse: The revised program would help two earner families by granting a 10 percent exclusion for working spouse income with a ceiling of $3,000, as compared to $6,000 in the September program.

- Elderly credit: As in the September program, the credit would be generally liberalized and the special preference for retired public employees would be repealed.

- Itemized deductions: As in September, the revised program would broaden the tax base and discourage itemization by reforming the deductions for sales and gas taxes, medical and casualty expenses, and political contributions, but the September reform of the personal interest deduction would be omitted. why?

- Unemployment insurance: As in September, the revised program would tax unemployment insurance benefits above an income floor.

Capital Formation

- The revised package puts heavy emphasis on permanent tax reductions to enhance capital formation. To meet simultaneously our employment and anti-inflation goals we clearly need a strong private investment-led recovery over the next several years. This tax bill will largely determine whether we achieve such a recovery.

- The revised program provides a 2 percentage point corporate rate cut in 1978 and 1 percentage point in 1980--or alternatively a 2 percentage point increase in the investment credit in 1978 and 2 point reduction in the corporate rate in 1980. The revised program retains the permanent liberalizations in the Investment Tax Credit proposed in September: extention to structures and liberalization of the income tax limitation from 50 percent to 90 percent. The program also includes the September proposals for small business relief. Table 7 shows the net impact of the program on the level of taxation on income from capital.

Particular Reform Items

The September package contained a long list of reforms to eliminate or narrow tax expenditures of interest to particular groups. Each of these items would generate controversy, and submitting all of them would make difficult rapid Congressional action on the tax bill. The revised program retains, occasionally with modifications, proposals dealing with many of these special interest provisions such as:

- entertainment expenses and business meals
- real estate depreciation
- accounting for agricultural corporations
- percentage depletion for hard minerals
- bad debt deductions for financial institutions
- taxable bond option
- elimination of DISC
- taxation of foreign shipping

Despite this, the revised package excludes argumentative reforms in the following areas:

- percentage depletion for oil and gas
- intangible oil drilling costs
- interest withholding
- interest build up on life insurance
- state taxation of foreign based multinationals

Remaining Points of Difference

Your advisors remain in disagreement on whether to include the following items in the revised program:

- elimination of deferral of corporate foreign source income (Treasury would exclude; DPS would include). incl
- elimination of deductibility for theatre and sports tickets (Treasury would exclude; DPS would include; CEA and OMB would provide 50 percent deductibility). incl
- limitation of deductibility for air travel costs to tourist fare (Treasury would exclude; DPS would include). incl
- reduction of tax free level of employer-paid insurance premiums (Treasury would exclude; DPS would include). ?
- elimination of deductibility for group-term legal insurance (Treasury would include; DPS would exclude). incl
- additional business relief (Treasury would add 1 additional point to the corporate rate cut; CEA would instead add a 2 point rise in the ITC). poll ?

C. Size of Tax Reduction

The recommendations made here initially have a similar revenue effect as the earlier recommendations but there is more room for a subsequent tax reduction which could accompany additional tax reform in a later package.

Fiscal Year	Recommended Option	Benchmark of September 23 Option
1979	$18.7 billion	$16.6 billion
1980	$21.4 billion	$29.6 billion
1981	$23.8 billion	$38.0 billion
1982	$25.6 billion	$41.2 billion

Tables 6 and 6a give the fiscal year revenue effects of the proposals and of the items of remaining disagreement.

D. Coordination of Tax Package With Other Automatic Changes

We are not asking you at this time to approve the precise size or precise income distribution of the net revenue losses in the program. These decisions must await further economic forecasts, passage of the social security and energy legislation, and decisions on our FY 1979 outlay plans. When this information is at hand, we may well ask approval of a significantly larger 1979 revenue loss than the revised program presently contains. This can be easily effected by deepening the individual and/or business rate cuts, and/or by increasing the size of the per capita credit.

Factors which need to be taken into account in connection with rate reductions, and which may require some changes by us subsequently, relate to the following issues:

- Social Security. Individual tax reductions need to be structured to offset the social security tax increases. Individual tax reductions need to offset the increase in the social security rate from 5.85 percent to 6.05 percent for 1978. In addition, the increases in social security taxes for 1978 over 1977 is $7.1 billion in the House bill and $3.5 billion in the Senate bill. The increase for 1979 is $9.8 billion in the House bill as contrasted to $12.7 billion in the Senate bill. Table 1 gives the distribution by income classes of the House and Senate increases in employee social security taxes in 1978 and 1979 compared to 1977 law. If both employer and employee increases in social security are considered, the increases would be about double those shown in this table.

- Energy. The tax effect of the energy legislation also needs to be taken into account. However, no decisions have been made as to the tax measures under the energy bill. It seems likely, however, that the primary tax increases provided for in 1978 will be rebated to the consumers. If this occurs, this will not necessitate further adjustment in the tax reductions for 1978, but it may require adjustment for subsequent years.

- Other Tax Increases for 1978 and 1979. Other increases which need to be taken into account in the rate reductions relate to unemployment taxes (the base rises from $4,200 to $6,000 per employee in 1978), inflation (which causes tax rates to rise perhaps by $5.8 billion in 1978 and $12.6 billion in 1979), and real growth in the economy, which also increases effective individual tax rates.

The effect of the various factors set out above in taxes in 1978 and 1979 can be summarized as follows:

	($ billions) 1978	1979
Unemployment tax	$3.1 billion	$3.3 billion
Social security tax		
Current law	$3.5 billion	$3.6 billion
House bill	$3.6 billion	$6.2 billion
Senate bill	--	$9.1 billion
Inflation	$5.8 billion	$12.6 billion
Real Growth	$2.2 billion	$5.1 billion
Total (including House bill)	$18.2 billion	$30.8 billion
Total (including Senate bill)	$14.6 billion	$33.7 billion

E. Split Between Individual vs. Business Cuts

Traditionally, Congress has split income tax reductions between individuals and businesses on a three-to-one ratio. There has been some variation in this, but something of this general level is probably politically acceptable.

Table 2 shows the division of the proposals under the recommendations for each of the years involved. In permanent terms, this indicates a reduction of about $10 billion for individuals to $3 billion for business. Initially, the division is $10.5 billion to $8.1 billion, but by 1980 increases to a ratio of $15.6 billion for individuals to $5.8 billion for business. Gradually the individual cut relative to the corporate cut continues to increase until it reaches the level of $19.0 billion in 1982 to $6.5 billion for business.

?

This table also shows the division of the proposals between tax reform and tax reduction. The full year effect (at 1976 income levels) shows reductions of $20.9 billion vs. tax reform of $7.7 billion. However, the initial effect is substantially larger reductions--$23.5 billion vs. $4.8 billion--with this gradually shifting toward a heavier emphasis on tax reform. By 1982, the ratio is $39.0 billion of reductions vs. $13.4 billion of tax reform.

F. <u>Income Distributions of Tax Cuts</u>

Table 3 shows the effective rates of tax under the recommended program and compares these effective rates with those under present law as well as those which would be provided under the general tax reform proposals presented this last September. This table shows the effect of individual taxes alone and individual and imputed income and corporate taxes.

The effective rates move from present law effective rates toward the September 23 effective rates, but by not including all of the proposals we only partially achieve this result. The rate reduction in the higher brackets--a reduction from 70 percent to 65 percent--is disproportionately smaller than other reductions in order to push the effective rates as near as possible to those provided under the September 23 proposal.

Table 4 shows the individual income tax liabilities under present law and under the recommendations. Another table, Table 5, shows the distribution effects by income class of each of the proposals included in the recommendations.

Table 1

Estimated Increase in Social Security Taxes
and Total Tax Reform Including Increase in Social Security Taxes
(Employee's Share Only Over 1977 Levels)
(1976 Levels of Income)
($ millions)

Expanded income class	Calendar Year 1978				Calendar Year 1979			
	Social security		Total tax reform including increase in social security taxes		Social security		Total tax reform including increase in social security tax	
	House Bill	Senate Bill	House Bill	Senate Bill	House Bill	Senate Bill	House Bill	Senate Bill
($000)								
Less than 5	118	118	-476	-476	118	167	-476	-427
5 - 10	281	281	-1,847	-1,847	281	400	-1,847	-1,728
10 - 15	353	353	-2,839	-2,839	353	503	-2,839	-2,689
15 - 20	414	355	-2,774	-2,833	508	534	-2,680	-2,654
20 - 30	570	369	-2,451	-2,652	756	642	-2,265	-2,379
30 - 50	193	126	-1,303	-1,370	283	216	-1,213	-1,280
50 - 100	57	37	-604	-624	82	64	-579	-597
100 - 200	10	7	-183	-186	15	11	-178	-182
200 or more	3	2	-250	-251	4	2	-249	-251
Total	1,998	1,647	-12,721	-13,072	2,401	2,539	-12,318	-12,180

Office of the Secretary of the Treasury
Office of Tax Analysis

November 21, 1977

1/ Consists entirely of increase scheduled under present law.

Table 2

Summary of Revenue Effects of Treasury Tax Reform Proposals

($ millions)

	Full-year effect (1976 levels)	Fiscal Years			
		1979	1980	1981	1982
Proposal primarily affecting individuals:					
Tax reform proposals	5,440	4,101	7,100	8,421	9,900
Tax reduction proposals..	-17,119	-16,092	-24,920	-28,050	-31,812
Net tax reduction	-11,679	-11,991	-17,820	-19,629	-21,912
Proposal primarily affecting business:					
Tax reform proposals	2,270	710	1,943	2,783	3,522
Capital formation proposals	-5,310	-7,805	-7,738	-9,462	-10,067
Net tax reduction ...	-3,040	-7,095	-5,795	-6,679	-6,545
Total, individual and business proposals:					
Tax reform proposals	7,710	4,811	9,043	11,204	13,422
Tax reduction proposals .	-22,429	-23,897	-32,658	-37,512	-41,879
Net tax reduction	-14,719	-19,086	-23,615	-26,308	-28,457

Office of the Secretary of the Treasury
Office of Tax Analysis

November 21, 1977

Table 3

Effective Tax Rates under Tax Reform Proposals

(1976 Levels of Income)

Expanded income class	Individual Only						Individual and Imputed Corporate					
	Net tax change	Effective tax rates			Change in effective tax rate		Net tax change	Effective tax rates			Change in effective tax rate	
		Present law	Proposal	September proposal	Proposal	September proposal		Present law	Proposal	September proposal	Proposal	September proposal
	$ mil.	(................percent				...................)	$ mil.	(............... percent				................)
Less than 5	-413	0.2	-0.5	-0.5	-292.9	-284.3	-594	4.6	3.8	3.7	-19.5	-21.5
5 - 10	-1,911	5.5	4.2	4.1	-23.2	-25.6	-2,128	7.4	6.1	5.9	-18.0	-19.8
10 - 15	-2,947	9.0	7.5	7.2	-16.3	-20.1	-3,192	10.5	9.0	8.7	-14.3	-17.4
15 - 20	-2,974	11.2	9.8	9.4	-12.9	-16.2	-3,188	12.5	11.0	10.7	-11.8	-14.6
20 - 30	-2,627	13.8	12.7	12.1	-8.0	-12.4	-3,021	15.5	14.3	13.7	-7.7	-11.2
30 - 50	-998	17.6	16.8	16.1	-4.5	-8.8	-1,496	20.2	19.2	18.6	-5.1	-7.9
50 - 100	-181	24.4	24.2	23.1	-1.1	-5.5	-661	27.2	26.4	25.8	-2.8	-5.3
100 - 200	162	29.5	30.1	30.8	2.0	4.3	-193	32.1	31.7	32.4	-1.4	0.8
200 and over	204	30.0	31.0	35.3	3.2	17.7	-253	33.2	32.5	35.3	-1.9	6.6
Total	$-11,679	12.4%	11.3%	11.0%	-8.6%	-11.3%	$-14,719	15.0%	13.8%	13.5%	-8.1%	-9.7%

Office of the Secretary of the Treasury
Office of Tax Analysis

November 21, 1977

Note: Details may not add to totals due to rounding.

Table 4

Individual Income Tax Liabilities: Present Law and Proposed 1/

(1976 Levels of Income)

Expanded income class	Present law tax 2/ Amount	Present law tax 2/ Percentage distribution	Treasury proposal tax Amount	Treasury proposal tax Percentage distribution	Tax change Amount	Tax change Change as percent of present law tax
($000)	($ mil.)	(percent)	($ mil.)	(percent)	($ mil.)	(percent)
Less than 5	141	0.1	-272	-0.2	-413	-292.9
5 - 10	8,227	6.1	6,316	5.1	-1,911	-23.2
10 - 15	18,071	13.4	15,124	12.2	-2,947	-16.3
15 - 20	23,009	17.0	20,035	16.2	-2,974	-12.9
20 - 30	32,778	24.2	30,151	24.4	-2,627	-8.0
30 - 50	22,017	16.3	21,019	17.0	-998	-4.5
50 - 100	16,492	12.2	16,311	13.2	-181	-1.1
100 - 200	8,084	6.0	8,246	6.7	162	2.0
200 and over	6,476	4.8	6,680	5.4	204	3.2
Total	$135,293	100%	$123,614	100.0%	$-11,679	-8.6%

Office of the Secretary of the Treasury
Office of Tax Analysis

November 21, 1977

1/ Exclude business taxes imputed to individuals and proposals primarily affecting business income.

2/ 1977 law amended to reflect the $3,000 capital loss limitation effective under current law in 1978.

Note: Details may not add to totals due to rounding.

Table 5

Estimated Tax Changes Resulting from Proposed Tax Reform by Expanded Income Class

(1978 Law, 1976 Levels of Income)

($ millions)

Expanded income class	$240 credit in lieu of personal exemptions	Reduced tax rates	Working spouse exclusion	Itemized deduction changes: Repeal gasoline tax deduction	Itemized deduction changes: Repeal sales tax deduction	Itemized deduction changes: Repeal miscellaneous tax & political contribution deduction	Itemized deduction changes: Deduction for medical and casualty expenses	Capital gains taxation: Repeal alternate tax	Individual real estate tax shelter	Corporate real estate tax shelters	Accrual accounting for corporate farms	Phase down depletion to 15% on hard minerals	Bad debt reserves: Commercial banks	Bad debt reserves: Mutual savings and savings and loans	Minimum tax change	Taxation of unemployment benefits
($000)																
Less than 5	-323	-100	-1	*	1	*	1	*	4	14	*	1	12	5	*	*
5 - 10	-1,184	-821	-36	16	28	6	43	*	5	16	*	1	14	6	*	*
10 - 15	-1,026	-2,123	-230	68	124	30	151	*	5	18	*	2	16	7	*	4
15 - 20	-202	-3,260	-294	127	267	56	268	*	8	16	*	1	14	6	*	14
20 - 30	865	-4,698	-337	225	549	100	430	*	15	30	*	3	27	11	*	160
30 - 50	1,113	-3,045	-141	117	392	76	293	*	59	36	*	3	31	13	*	70
50 - 100	677	-1,470	-49	42	234	56	158	13	89	36	15	3	31	13	4	42
100 - 200	160	-352	-11	10	81	32	53	43	83	27	11	2	25	10	45	6
200 and over	45	-278	-2	3	31	32	36	34	122	34	4	3	30	13	162	*
Total	127	-16,145	-1,101	608	1,706	390	1,433	90	390	227	30	19	200	84	211	275

*Less than $500 thousand.

Note: Details may not add to totals due to rounding.

Table 5 (continued)
- 2 -

($ millions)

Expanded income class	Credit for elderly	Non-discrimination rule for health and group term life plans	Tax qualified retirement plans	Entertainment expenses	Taxable bond option	Eliminate DISC deferral	Tax 50% of shipping income	Corporate rate reductions	Increase investment tax credit: tax liability limit to 90%	Limit credits to 90% of tax before credits	Extend 10 percent investment tax credit to structure: Industrial	Extend 10 percent investment tax credit to structure: Utilities	Full tax credit for pollution abatement facilities	Small business
($000)														
Less than 5	*	2	*	45	3	54	6	-244	-4	*	-38	-26	-5	-1
5 - 10	-2	2	*	52	30	60	7	-285	-5	2	-45	-31	-6	-1
10 - 15	-3	2	*	60	44	70	8	-326	-6	7	-51	-35	-7	-1
15 - 20	-3	2	*	52	37	63	7	-285	-5	6	-45	-31	-6	-1
20 - 30	-2	4	*	98	72	115	13	-529	-9	10	-83	-57	-12	-1
30 - 50	-1	5	8	120	50	134	16	-651	-11	6	-102	-71	-14	-2
50 - 100	*	5	9	120	6	137	16	-651	-11	3	-102	-71	-14	-2
100 - 200	*	4	4	90	2	107	12	-488	-9	2	-77	-53	-11	-1
200 and over	*	4	9	112	5	130	15	-611	-11	1	-96	-66	-14	*
Total	-11	30	30	750	250	870	100	-4,070	-71	38	-638	-441	-90	-10

*Less than $500 thousand.

Note: Details may not add to totals due to rounding.

Table 5 (continued)

($ millions)

Expanded income class	Tax Changes: Changes primarily affecting individual income	Tax Changes: Changes primarily affecting business income	Tax Changes: Total
($000)			
Less than 5	-413	-181	-594
5 - 10	-1,911	-217	-2,128
10 - 15	-2,947	-245	-3,192
15 - 20	-2,974	-214	-3,188
20 - 30	-2,627	-394	-3,021
30 - 50	-998	-498	-1,496
50 - 100	-181	-480	-661
100 - 200	+162	-355	-193
200 and over	+204	-457	-253
Total	-11,679	-3,040	-14,719

Office of the Secretary of the Treasury
Office of Tax Analysis

*Less than $500 thousand.

Note: Details may not add to totals due to rounding.

Table 5a

Estimated Tax Changes Resulting from Additional Items Not Agreed to, Distributed by Expanded Income Class

(1978 Law, 1976 Levels of Income)

($ millions)

Expanded income class	Group term life insurance	Group legal insurance	Eliminate theater and sporting ticket deduction: Full elimination	Eliminate theater and sporting ticket deduction: One-half elimination	First class airfare	Elimination of deferral of foreign income	Permit 150% declining balance depreciation on industrial structures	Replace portion of corporate rate cut with additional investment tax credit	Total tax changes including full elimination of deduction for tickets
($000)									
Less than 5	*	2	15	8	14	~~26~~ 27	-5	-58	~~-20~~ -5
5 - 10	*	6	17	8	16	~~28~~ 29	-6	-67	~~-22~~ -5
10 - 15	*	8	20	10	19	~~35~~ 34	-6	-75	~~-20~~ *
15 - 20	1	8	18	9	17	~~30~~ 31	-6	-68	~~-17~~ 1
20 - 30	37	9	34	17	32	~~55~~ 57	-10	-125	~~--~~ 34
30 - 50	54	4	39	20	37	~~66~~ 67	-18	-153	~~-10~~ 30
50 - 100	47	1	39	20	37	~~65~~ 68	-22	-153	~~-23~~ 17
100 - 200	19	*	31	16	29	~~51~~ 53	-19	-115	~~-33~~ -2
200 and over	7	*	37	18	34	~~61~~ 64	-26	-142	~~-63~~ -26
Total	166	40	250	125	235	~~413~~ 430	-116	-953	~~-200~~ 52

Office of the Secretary of the Treasury
Office of Tax Analysis

November 21, 1977

*Less than $500 thousand.

Note: Details may not add to totals due to rounding.

Table 6

Fiscal Year Receipt Effects of Tax Reform Proposals

($ millions)

Proposal number		Full year 1976	Fiscal Years 1979	1980	1981	1982
1-3	$240 credit and reduced tax rates 1/	-16,018	-15,134	-23,481	-26,502	-30,148
4	10 percent/$3,000 working spouse exclusion	-1,101	-958	-1,439	-1,548	-1,664
	Itemized deduction changes:					
5	Repeal gasoline tax deductions	608	670	895	994	1,103
5	Repeal sales tax deductions	1,706	1,633	2,513	2,789	3,096
5	Repeal miscellaneous tax deductions	387	371	570	633	702
6	Deduction for medical and casualty expenses	1,433	1,299	1,973	2,151	2,344
8	Repeal political contributions deduction	3	2	5	4	4
9	Repeal capital gains alternate tax	90	17	122	132	142
14	Individual real estate tax shelters	390	13	129	328	509
14	Corporate real estate shelters	227	23	100	205	305
15	Corporate family farm accounting	30	18	33	18	8
16	Depletion on hard minerals 2/	19	2	8	12	19
19	Bad debt reserves:					
	Commercial banks 3/	200	18	57	97	72
	Mutual savings and savings and loans 4/	84	11	38	80	142
20	Minimum tax change 5/	211		262	282	303
22	Taxation of unemployment benefits	275	32	227	221	220
24	Tax credit for the elderly	-11	-2	-14	-15	-16
26	Nondiscrimination rule for health and group term life plans	30	15	33	35	35
28-29	Tax qualified retirement plans & employee death benefits	30	14	32	33	33
30-31	Entertainment expenses 6/	750	508	1,184	1,300	1,414
34	Taxable bond option	250	29	296	770	1,353
35	Phase out DISC over 3 years 7/	870	86	429	981	1,476
37	Tax 50 percent shipping income	100	45	100	100	100
39	Corporate tax rate reduction 8/	-4,070	-5,375	-5,252	-7,038	-7,623
41	Increase investment tax credit liability limit to 90 percent 9/	-71	-397	-743	-368	-169
41	Limit credits to 90 percent of tax before credits	38	8	57	64	72
41	Extend 10 percent investment tax credit to structures:					
	Industrial	-638	-1,193	-1,030	-1,265	-1,412
	Utility	-441	-798	-614	-675	-741
41	Full investment tax credit for pollution abatement facilities	-90	-42	-99	-116	-122
43	Small business	-10	-1	-6	-10	-14
	Total	-14,719	-19,086	-23,615	-26,308	-28,457

Office of the Secretary of the Treasury, Office of Tax Analysis — November 21, 1977

1/ Proposed individual tax rates range from 12 percent to 65 percent at $150,000 taxable income.
2/ Phase down depletion to 15 percent on hard minerals over a five-year period.
3/ Five-year phaseout of special deduction for bad debt reserves.
4/ Special deduction for bad debt reserves phased down from 40 percent to 30 percent over a five-year period.
5/ Eliminate the offset for ordinary income taxes paid.
6/ Eliminate the deduction for club dues, cut in half deductions for business meals and eliminate deductions for foreign conventions.
7/ Eliminate one-third of the DISC benefits in 1979, two-thirds in 1980, and 100 percent in 1981 and thereafter.
8/ Corporate tax rate reductions consist of 1 point from the normal tax rate and 1 point from the surtax rate in 1978 and 1 additional point from the normal tax rate in 1980 and thereafter.
9/ Effective January 1, 1979.

Table 6a

Addendum: Estimated Revenue Effect of Additional Items Not Agreed To

($ millions)

	Full year 1976	Fiscal Years 1979	1980	1981	1982
Group term life insurance	166	85	190	198	205
Group legal insurance	40	10	19	30	46
Eliminate deduction for theater and sporting tickets	250	169	395	433	471
Eliminate one-half of deduction for theater and sporting tickets	125	84	198	216	236
Eliminate deduction for first class air fare	235	163	376	408	443
Elimination of deferral of foreign income	430	243	528	529	571
Permit 150 percent declining balance depreciation on industrial structures	-116	-8	-45	-101	-153
Replace portion of corporate rate cut with additional investment tax credit:					
Twelve percent ITC (including pollution abatement facilities), effective January 1, 1978	-2,371	-3,843	-3,360	-3,814	-4,203
Reduce corporate tax rate (1 point off normal tax 1978 and 1 point off surtax in 1980)	-2,652	-2,871	-3,165	-4,586	-4,967
Subtotal	-5,023	-6,714	-6,525	-8,400	-9,170
Add back corporate tax rate cuts contained in Option #2	4,070	5,375	5,252	7,038	7,623
Net	-953	-1,339	-1,273	-1,362	-1,547
Total (including full elimination of deductions for tickets)	52	-677	190	135	36

Office of the Secretary of the Treasury
Office of Tax Analysis

November 23, 1977

Table 7

Tax Reform Proposals
Change in Tax on Capital Income

(1976 Levels of Income)

($ millions)

	Full year 1976
Individual rate reductions, $240 credit, and itemized deductions (capital income only) 1/	-1,100
Capital gains taxation:	
Repeal alternate tax for individuals	90
Minimum tax change	211
Real estate shelters	
Individual	390
Corporate	227
Bad debt reserve	284
Taxable bond option	250
Tax credits limited to 90 percent of individual liability	38
Small business	-10
Foreign:	
Tax 50 percent of shipping income	100
Phaseout of DISC	870
Depletion for hard minerals	19
Corporate family farm accounting	30
Investment tax credit:	
Extend to structures	-1,079
Increase liability limit to 90 percent	-71
Pollution abatement facilities	-90
Corporate tax rate reductions	-4,070
Total for capital income	-3,911

Office of the Secretary of the Treasury
Office of Tax Analysis

November 22, 1977

1/ Capital income items are: dividends, interest, rents, royalties, capital gains, proprietorship, and partnership income. Under present law these items of income add $28,498 million to tax liability. After listed changes, this added liability is reduced to $27,398 million, a difference of $1,100 million from present law.

Part Two

Summary of Tax Reform Options

Personal Tax Reductions	The Recommended Option	Option presented September 23 *
1. Personal Credit	Replace the existing $750 exemption and general tax credit with a per person $240 credit. This raises $0.1 billion.	Same as current recommendation except credit phased to $250 over 3 years. This loses $1.4 billion.
2. Rate Cuts	Replace the present 14% to 70% rate structure with rates ranging from 12% to 65% (at $150,000 taxable income for married couples).	Replace the present rate structure with rates ranging from 10% to 50% (at $70,000 taxable income for married couples).
3. Rates for Singles	Adjust rates so that a single taxpayer would never pay more than 15% (now 20%) more taxes than a married couple with the same taxable income	Same as current recommendation.
	Points 2 and 3 combined involve a revenue loss of $16.2 billion.	Points 2 and 3 involve a revenue loss of $24.0 billion.
4. Marriage Penalty	For two-earner couples, give the lesser earning spouse a tax deduction equal to 10% of earned income up to a maximum deduction of $300. This involves a revenue loss of $1.1 billion	For two-earner couples, give the lesser earning spouse a tax deduction equal to 10% of earned income up to a maximum deduction of $600. This involves a revenue loss of $1.7 billion.

*/ Includes recommendation by any group whether or not favored by Treasury.

Summary of Tax Reform Options (cont'd.)

Itemized Deductions	The Recommended Option	Option Presented September 23
5. State and Local Taxes	Eliminate the deductions for sales, personal property, gasoline, and miscellaneous taxes. This involves a revenue gain of $2.7 billion.	Same as current recommendation. This involves a revenue gain of $2.4 billion.
6. Medical and Casualty Losses	Combine the separate deductions for medical expenses and casualty losses into a new "extraordinary expense" deduction available only to the extent that they exceed 10% of AGI. This involves a revenue gain of $1.4 billion.	Same as current recommendation. This involves a revenue gain of $1.3 billion.
7. Mortgage Interest and Interest on Consumer Loans		Place a $10,000 limitation on the presently unlimited deduction for personal interest on mortgages and consumer loans. This involves a revenue gain of $14 million.
8. Political Contribution Deduction	Repeal the deduction for political contributions but retain the credit. This involves a revenue gain of $3 million.	Same as current recommendation. This involves a revenue gain of $3 million.

Summary of Tax Reform Options (cont'd.)

Capital Gains and Losses	The Recommended Option	Option Presented September 23
9. Capital Gains During Life	Retain the present 50% exclusion on long-term capital gains but repeal the present 25% alternative tax on capital gains up to $50,000. Raises revenue by $90 million.	° Tax capital gains realized during life as ordinary income. Phase in new treatment over a 3-year period. This involves a revenue gain of $4.4 billion.
10. Venture Capital Rule	---	Provide a special tax credit equal to 10% of the gain from the sale of venture capital stock held for more than 10 years. Revenue effects included above.
11. Capital Losses	---	Allow capital losses in general to be deducted in full against ordinary income; limit the deduction for marketable security losses to marketable security gains plus $10,000. Revenue effects included above.
12. Capital Gains on Transfers at Death or by Gift	---	Tax post-1976 appreciation in property when the property is transferred at death or by gift. This increases revenues by $1.65 billion.
13. Timber Industry	---	Allow the timber industry to expense (rather than capitalize) regeneration and reforestration costs. This involves a revenue loss of $53 million.

Summary of Tax Reform Options (cont'd.)

Tax Shelters and Preference Income	The Recommended Option	Option Presented September 23
14. Real Estate Depreciation	° Require taxpayers, in general, to depreciate their buildings under the straight-line method over the average tax lives presently in use. ° Permit accelerated depreciation for multi-family housing (150% declining balance) and, through 1981, low-income housing (200% declining balance). Difference: The CEA believes that industrial structures should continue to be eligible for 150% declining balance depreciation. These proposals involve a revenue gain of $617 million.	° Adopt current recommendations as an interim rule. ° Beginning in 1981, restrict depreciation to equity under the interim rule, but allow taxpayers to elect instead to depreciate buildings by using the straight-line method (150% declining balance for multi-family housing) with total deductions limited to the Treasury-established decline in value over each 10-(or 20) year period the property is in use. This involves a revenue gain of $706 million.
15. Accounting for Agriculture Corporations	Require all corporate farms with gross receipts of more than $1 million and not taxed like partnerships to use accrual (as opposed to cash) accounting. This involves a revenue gain of $30 million.	Same as current recommendation. This involves a revenue gain of $30 million.
16. Percentage Depletion for Hard Minerals	Reduce percentage depletion for certain hard minerals from 22% to 15% over 5 years. This involves a revenue gain of $19 million.	Phase out percentage depletion for all hard minerals over a 10-year period. This involves a revenue gain of $734 million.

Summary of Tax Reform Options (cont'd.)

Tax Shelters and Preference Income (cont'd.)	The Recommended Option	Option Presented September 23
17. Percentage Depletion for Oil and Gas	---	Phase out percentage depletion (presently available only to independent producers) over 5 (or 15) years beginning in 1985. This involves a revenue gain of $.6 billion.
18. Intangible Drilling Costs	---	Classify intangible drilling costs deducted by both individuals and corporate taxpayers as an item of tax preference subject to the minimum tax (without regard to the income derived from oil related properties). This involves a revenue gain of $114 million.
19. Financial Institutions	Reduce the 40% bad debt deduction for savings and loan associations down to 30% over 5 years; phase out over 5 years the special bad debt deduction for commercial banks. This involves a revenue gain of $284 million.	Same as current recommendation, except reduce the bad debt deduction for savings and loan associations down to 20% and eliminate in one year the special bad debt deduction for commercial banks. Tax credit unions to the same extent as savings and loan associations. This involves a revenue gain of $495 million.
20. Minimum Tax and At Risk	Eliminate the deduction for half of regular tax against preference income. This involves a revenue gain of $211 million.	Retain the minimum tax essentially in its present form, but eliminate preferences which would be directly eliminated (e.g., capital gains) and expand the preference for intangible drilling costs. Revenue effect noted above.

Summary of Tax Reform Options (cont'd.)

Tax Shelters and Preference Income (cont'd.)	The Recommended Option	Option Presented September 23
		Extend at risk to all activities (except real estate) carried on individually or through partnerships or corporations. Involves a revenue gain of $20 million.
		Tax all limited partnerships with more than 15 partners as corporations.
	Permit IRS audit of tax shelter partnerships at the partnership level rather than partner level.	Item added since September 23.
Transfer Payments and Treatment of the Elderly		
21. Railroad Retirement Benefits		Tax that portion of railroad retirement benefits which are the equivalent of private pensions.
22. Unemployment Compensation Benefits	Include unemployment compensation benefits in the taxable income of single taxpayers with other income above $15,000 and married couples with other income above $20,000. This involves a revenue gain of $275 million.	Same as current recommendations. This involves a revenue gain of $275 million.

Summary of Tax Reform Options (cont'd.)

Transfer Payments and Treatment of the Elderly (cont'd)	The recommended option	Option presented September 23
23. Scholarships, Fellowships and GI Bill Benefits	--	Include in taxable income amounts received for scholarships, fellowships, or GI bill benefits except to the extent that they represent allowances for tuition and fees. This involves a revenue gain of $170 million.
24. Credit for the Elderly	° Increase the credit for those above age 65 by basing it on income of $3,000 (now $2,500) for single taxpayers and $4,500 (now $3,750) for married taxpayers. ° Repeal the retirement income credit for public employees under age 65. These proposals involve a <u>net</u> revenue loss of $11 million.	Same as current recommendation. This involves a <u>net</u> revenue loss of $11 million.
Employee Fringe Benefits		
25. Group Term Life Insurance	Not recommended by Treasury. <u>Difference</u>: Domestic Policy staff recommends that taxable income include employer-paid premiums for group-term life insurance in excess of $25,000 (now $50,000). This involves a revenue gain of $166 million.	Same as current recommendation. This involves a revenue gain of $166 million.

Summary of Tax Reform Options (cont'd)

Employee Fringe Benefits (cont'd)	The recommended option	Option presented September 23
26. Health and Group Term Life Insurance	Require that employer-paid group life, medical and disability insurance be provided on a nondiscriminatory basis. This involves a revenue gain of $30 million.	Same as current recommendation. This involves a revenue gain of $30 million.
27. Group Legal Insurance	Repeal the provision enacted last year under which the cost of employer-paid group legal insurance is nontaxable to employees. Difference of opinion as to whether this should be included. This involves a revenue gain of $40 million.	Same as current recommendation. This involves a revenue gain of $40 million.
28. Qualified Retirement Plans	Restrict the limitations on contributions and benefits under qualified retirement plans to the fixed dollar amounts with no cost-of-living adjustment ($25,000 defined contribution, $75,000 defined benefit).	In addition to items in current recommendation. ° Extend the $7,500 annual limitation on contributions to qualified plans for the self-employed to shareholders with at least a 10% percent interest in the corporation. ° Reduce the defined contribution and defined benefit plan limitations to $15,000 a year and $60,000 (with no cost-of-living adjustments). ° Limit the maximum benefits available under two types of plan to equivalent of 100% (now 140%) of separate limitations. ° No longer permit plans to entirely exclude employees all of whose wages are covered by social security. These proposals increase revenues by $10 million.

Employee Fringe Benefits (cont'd)	The recommended option	Option presented September 23
29. Employee Death Benefits	Repeal the $5,000 employee death benefit exclusion. This raises revenues by $30 million.	Same as current recommendation. This raises revenues by $30 million.
30. Entertainment Expenses	° Disallow business deductions for entertainment facilities (yachts, clubs dues, etc.). ° Disallow none of expenses for sporting or theatre tickets. Difference: Disallow half or all of these expenses. ° Disallow the deduction of expenses for foreign conventions unless it is reasonable for the meeting to be held outside the United States; increase the per diem for qualified conventions from 100% to 125% of the government per diem. ° Disallow none of the costs of first-class air tickets. Difference: Disallow the excess of first-class air tickets over the cost of coach or second class tickets.	Same as current recommendation but full disallowance of deductions for tickets.
31. Business Meals	Reduce to 50% the otherwise allowable deduction for business meals. The revenue gain for items 30 and 31 would be $750 million under Treasury recommendations, $875 million under CEA recommendations, and $1.0 billion under DPS recommendations.	Same as current recommendation plus $15 limit on meals. The additional revenue gain of the $15 limit is $100 million.

Summary of Tax Reform Options (cont'd)

Tax Treatment of Interest	The recommended option	Option presented September 23
32. Withholding on Interest and Dividend Payments		Require payors of taxable interest to withhold and deliver to the Government 20% of the payments they would otherwise make. Dividends would be handled through partial integration. The interest withholding is estimated at $1.36 billion.
33. Interest Buildup on Life Insurance and Annuity Contracts		Tax to policyholders the interest earned on the savings element of cash surrender value life insurance and on annuity contracts. This will raise revenue by $1.05 billion.

Summary of Tax Reform Options (cont'd.)

	The recommended option	Option presented September 23
Tax Treatment of Interest (cont'd)		
34. Taxable Bond Option	° Give State and local governments the option of issuing (1) conventional tax-exempt municipal bonds or (2) taxable bonds which will receive a subsidy from Treasury for 35% or 40% of the interest cost.	° Same as current recommendations
	° Require State and local governments to issue taxable industrial development bonds (in existing categories) which will receive a subsidy from Treasury for 20% of the interest cost.	° Tax the interest on industrial development bonds issued for all private beneficiaries (except for certian small issues and low-income housing bonds).
	° The revenue gain under these proposals is $250 million. However, there also is an additional expenditure of several hundred million dollars.	° The revenue gains under these pro- proposals is $250 million. However, there also is an additional expenditure of several hundred million dollars.
International Taxation		
35. Elimination of DISC	° Reduce the DISC tax benefits by one-third in 1979, two-thirds in 1980 and 100% in 1981 and thereafter. This involves a revenue gain of $.9 billion.	°Same as current recommendations, except 50% reduction in 1980. This involves a revenue gain of $.9 billion.
		° Subject accumulated DISC profits to tax in equal installments over a 10-year period. This involves a revenue gain of $.4 billion.

Summary of Tax Reform Options (cont'd.)

	The recommended option	Option presented September 23
International Taxation (cont'd)		
36. Deferral	° Treasury would not end deferral. Difference: The Domestic Policy staff would eliminate the deferral of taxation on the income of U.S.-controlled foreign subsidiaries. This would increase revenues by $430 million.	Domestic Policy staff made same recommendation. This would increase revenues by $413 million.
37. Taxation of Foreign Shipping	° Tax half of the income from any voyage to or from the U.S. by ship or air-craft. This increases revenues by $100 million.	Same as current recommendations. This increases the revenue gain by $100 million.
38. State Taxation of Foreign Based Multinationals	--	Require States to use the accounting method generally accepted in international practice in determining the amount of income of multinationals allocable to doing business in the State. This has no revenue effect.
Business Tax Reductions		
39. Rate Cuts	Treasury recommends reducing the top corporate rate from 48% to 46% (in 1978) and 45% (in 1980), and the bottom rates (applicable to first $50,000 of corporate income) by two percentage points. Difference: The CEA instead would increase the investment tax credit by 2 percentage points, generally from 10% to 12% but reduce the corporate rates by only 2 percentage point. The Treasury proposal would decrease revenues by $4.1 billion and the CEA proposals by $5.0 billion.	° Reduce the top corporate rate from 48% to 46% and the bottom rates from 22% to 21% and from 20% to 19%. The revenue loss would be $2.7 billion.

Business Tax Reductions	The recommended option	Option presented September 23
40. Relief from Double Taxation	--	° Partial relief from double taxation of corporate and individual taxes via the "gross up" and credit method through a withholding tax credit of 20% for shareholders. The revenue loss of this is $2.5 billion.
41. Investment Tax Credit	° Increase the tax liability ceiling from 50% to 90%, effective January 1, 1979 and permit the credit to offset only 90% (now 100%) of the first $25,000 of tax liability. The revenue loss from this proposal is $33 million.	° Same as current recommendations. The revenue loss from this proposal is $33 million.
	° Extend the full credit to utility and industrial structures (including rehabilitation) and pollution abatement facilities. This decreases revenue by $1.2 billion.	° Same as current recommendations.
	° Make the 10 percent credit permanent.	° Same as current recommendation, except temporarily increase the 10 percent credit by 3 percentage points in 1978 and 1979, 2 points in 1980, and 1 point in 1981. The full 10 percent would not be permanent thereafter. Additional credit would temporarily reduce revenues by $5.4 billion in 1979, lowering to $1.7 billion in 1982.

	The recommended option	Option presented September 23
Business Tax Reductions (cont'd)		
42. Depreciation	--	° Allow depreciation to begin on work in progress on a utility project. This reduces revenues by $200 million.
43. Small Business	° Simplify and liberalize the ADR system of depreciation.	° Same as current recommendations.
	° Reduce the accumulated earnings tax.	° Same as current recommendations.
	° Liberalize the Subchapter S rules.	° Same as current recommendations.
	The revenue loss of these proposals would be $10 million.	The revenue loss of these proposals would be $10 million.

Treasury

Part Three--Comment on Current Recommendations

The numbers presented in this part correspond to the numbers in Part Two.

1. Personal Credit

The replacement of the existing $750 exemption and general tax credit with a single credit of $240 will simplify the tax system. It will better accommodate per capita energy rebates and ensure that tax free levels of income are near or above the break even points for the welfare system. It also is needed to offset the increased social security costs.

2. Rate Cuts

The new rate structure will somewhat increase overall progressivity of the individual income tax system. This is compared in Table 3 with the earlier recommendations of September 23. Except for the very highest income classes, the progressivity is similar to the earlier recommendations.

3. Rates for Singles

The reduced differential in rates payable by singles and married taxpayers with the same amount of income will move toward treating earners with the same income similarly, yet at the same time protect the married taxpayer who has additional expenses of supporting a larger household.

4. Marriage Penalty

The new deduction for earnings of the lesser earning spouse in a two-earner family will reduce the work disincentive created by the tax law. It will do so without increasing the penalty against single persons, which was reduced by the new single person schedule described in paragraph three. The new working spouse tax deduction in the case of a 70/30 percent split in earnings by the two spouses will reduce the marriage penalty to about $150 or less for family incomes up through $20,000 per year.

5. State and Local Taxes

The elimination of deductions for sales, personal property, gasoline, and miscellaneous taxes will simplify the tax return by eliminating those deductions which present the most recordkeeping difficulties of the various State and local taxes and whose repeal will have the least impact upon State and local government revenue sources. Sales and gasoline taxes are claimed through use of tables, the amount of benefit per taxpayer is small and the variations in burden among taxpayers in different localities is not significant.

6. Medical and Casualty Losses

The combination of the separate deductions for medical expenses and casualty losses into a new "extraordinary expense" deduction will simplify the preparation of the tax return and recordkeeping requirements. It will limit the benefit to taxpayers who truly have above average medical expenses and casualty losses.

8. Political Contribution Deduction

Elimination of the political contributions deduction will simplify matters for taxpayers since it will no longer be necessary to compare the deduction versus the credit. The deduction is unfair because it provides a greater subsidy for political contributions by taxpayers in a higher tax rate bracket. In any event, it has been shown that neither the deduction nor the credit has induced any significant amount of additional political contributions.

9. Capital Gains During Life

The elimination of the 25 percent alternative tax (on capital gains in any 1 year up to $50,000) will eliminate an unjustified benefit for taxpayers whose marginal rate bracket exceeds 50 percent. It will end the practice of taxpayers arranging dispositions of property through installment sales to spread a single gain over several years to take advantage of the lower alternative rate. The change in the minimum tax proposed below, together with the new rate schedules will make the top rate on capital gains 40 percent, approximately equal to the 39.88 percent under present law, assuming the taxpayer is subject to the minimum tax.

14. Real Estate Depreciation

The elimination of accelerated depreciation for real property other than housing will eliminate much tax sheltered investment that has led to overbuilding of commercial real estate in the form of shopping centers and office buildings. It will move depreciation for tax purposes more closely into line with a measurement of actual economic decline. The use of table lives for depreciation of real estate will simplify administration in this area. The CEA would recommend retaining 150 percent declining balance depreciation for new industrial structures in addition to extending the 10 percent investment tax credit to these structures. The extension of the investment credit is worth five times as much as the cut back in accelerated depreciation.

15. Accounting for Agriculture Corporations

The requirement that all corporate farms, including those operated by family corporations, with gross receipts of over $1 million use the accrual method of accounting will provide a fairer method of taxation among all agricultural corporations. There is no justification for the exception for family farm corporations under existing law since those corporations are required as a practical matter to use accrual accounting for their normal financial statements. The size of their operation is such that they employ competent accounting help. They cannot argue that the accrual method of accounting is too complex for them.

16. Percentage Depletion for Hard Minerals

The elimination of the 22 percent category of percentage depletion will reduce the tax expenditure subsidy for about 43 classes of minerals and will make a start toward conforming the income of mineral producing corporations to economic income. The percentage depletion deductions for coal and iron ore will not be reduced.

19. Financial Institutions

The reduction of the 40 percent bad debt deduction for savings banks and savings and loan associations to 30 percent will retain a substantial subsidy to encourage home mortgage lending. The elimination of the special bad debt deduction for commercial banks will place them on the same basis as other taxable entities in respect of their losses from bad debts. The experience method for bad debt reserves is appropriate for banks because they now have available a special 10 year net operating loss carryback in addition to regulatory measures which protect against unusual losses.

20. Minimum Tax

The proposal to eliminate the offset of one-half of the regular tax against preference income will reduce the profitability of tax shelters significantly. It will also mean that preference income will be taxed on an overall basis at rates somewhat closer to regular income. The change is needed to offset the reduction of the tax on capital gain which would otherwise occur following the rate cut. The enactment of provisions to permit Internal Revenue Service audit of tax shelter partnerships as a separate economic unit at the partnership level will permit the Service to audit flimsy tax shelters much more efficiently and effectively. It will make it much more difficult for taxpayers to avoid tax on ill-contrived schemes simply because of the chances of avoiding audit.

22. Unemployment Compensations Benefits

Since unemployment compensation benefits are a replacement for taxable wages, it is appropriate that they should be taxed as ordinary income. This is especially true in the case of persons who receive a substantial income during a portion of the year and then draw unemployment compensation for the balance of the year. On the other hand, the exclusion from taxation of unemloyment compensation benefits for taxpayers whose income is less than $15,000 if single or $20,000 if a married couple will avoid taxation in hardship situations.

24. Credit for the Elderly

The repeal of the retirement income credit for public employees under age 65 will eliminate a very complex provision of the law and will treat retirees under government plans on the same basis as those who retire under private plans. The increase in the income base will provide tax relief for taxpayers over age 65 who do not receive social security.

25. Group Term Life Insurance

Reduction in the exclusion of group term coverage from $50,000 to $25,000 will tax as compensation premiums paid with respect to higher paid individuals. It will generally retain the income exclusion for coverage provided rank and file employees. However, this will provide small increases for many employees in taxable income and will be a controversy with life insurance companies.

26. Health and Group Term Life Insurance

The requirement that employer paid group life, medical and disability insurance be provided on a nondiscriminatory basis will prevent the use of the tax system to subsidize highly paid executives and stockholder employees who exclude rank and file employees from the plan. We have long recognized in the pension area that nondiscrimination among employees is essential to justify the tax subsidy for these plans.

27. Group Legal Insurance

The exclusion from income of employer paid group legal insurance should be repealed before it becomes firmly entrenched as an employee preference and before it is extended to other fringe benefits. This provision permits the subsidization of personal legal expenses which are not deductible in the case of individuals not covered by a plan. There is no particular reason to subsidize through the tax system this form of legal aid for middle income taxpayers. At the same time it is recognized that some labor and law groups will take strong exception to this treatment.

28. Qualified Retirement Plans and Death Benefits

Congress fixed limits on the amount of pension benefit which can be provided highly paid employees on a tax deferred basis until retirement. The Congressional ceiling was originally $75,000, but adjustments for the cost of living has increased it to $84,000. The cost of living adjustment should be frozen to prevent further increase in this form of subsidy to high bracket executives. Already the limits will permit tax deferral on compensation in excess of $1 million in many cases.

29. Employee Death Benefits

The repeal of the $5,000 employee death benefit exclusion will eliminate the escape from taxation of deferred wages which are paid in almost all cases to high-bracket individuals.

30. Entertainment Expenses

The provisions for disallowance in this area will eliminate the tax subsidy for items of personal consumption. The present treatment of entertainment expenses artificially encourages individuals to favor entertainment over other forms of consumption. Entertainment expense deductions are a highly visible form of benefit in favor of high income individuals and the restriction of these deductions will increase confidence of low and middle income taxpayers in the fairness of the system. The deductions to be disallowed for entertainment facilities such as yachts and club dues will eliminate deductions in an area where there is very little evidence of business necessity.

The reduction to 50 percent of deductions otherwise allowable in the business meal area is a form of rough justice since the mix of business and personal aspects is much more evenly balanced in this area. In many cases, the 50 percent deduction will be a rough equivalence of the personal benefit involved.

Theatre and Sporting Events. There are differences of opinion as to the wisdom of disallowing deductions for theatre and sporting event tickets. Those arguing for complete elimination would state that the connection between the expenditure and the production of business benefit is tenuous since business is never discussed in this atmosphere. Those arguing for a disallowance of one-half of such expenses state that it is appropriate to place tickets and business meals on the same basis, so that there is no discrimination in favor of one form of business entertainment over another. Those who favor no proposal in this area believe that the amounts involved are small and would object to these petty amounts not being allowable as deductions. At the same time the sports and theatre industries require this help to provide jobs in their industries.

Foreign Conventions. The elimination of deductibility of expenses for foreign conventions unless it is reasonable to hold the meeting outside the United States will prevent the abuse of tax subsidized vacation trips abroad.

First Class Air Fare. Treasury recommends that no change be made in the deductibility of first class air fare. To deny a deduction for first class air fare would be quite controversial and would imply that in the case of all business expenses strict economy rules should be followed. Disallowance of the excess of first class air fare over the cost of a second class ticket is supported by others as improving the perceived equity of the tax system and reducing expense account living.

34. Taxable Bond Option

Allowing State and local governments to issue taxable bonds on an optional basis with an interest subsidy paid by the Federal Government will achieve a measure of tax reform in the tax exempt interest area. It will reduce the opportunity for the wealthy to avoid taxes because fewer tax exempt bonds will be available and the interest rates they command will be reduced. At the same time it will avoid the political and constitutional confrontation with State and local governments which would result from an attempt to tax interest on State and local bonds. 35 or 40% ?

It would be of benefit to State and local governments by generally reducing their borrowing costs and by opening a new market for their obligations in the form of sales to lower bracket taxpayers and to tax exempt pension funds and institutions. The elimination of tax exempt industrial development bonds will mitigate an abuse whereby tax exemption is granted to an exempt issuer which is simply lending its exemption to private corporations.

35. Elimination of DISC

The phase out of the special subsidy for export corporations will eliminate a program which costs about as much in tax revenues as it increases exports. The net impact on the balance of payments is much less than the cost.

36. Elimination of Deferral

Pro.--Those in favor of elimination of deferral argue that not currently taxing U.S. corporations on income derived through foreign subsidiaries provides an incentive to invest abroad rather than in the U.S.

Con.--Those who argue against the elimination state that few companies invest abroad merely because of tax considerations and discouraging foreign investment will not increase domestic investment and jobs. These are determined by the profit expected from domestic investment, which is not affected by changing the tax burden on foreign income. At the same time the elimination of deferral would immensely complicate the tax laws and would accomplish very little since it would give an incentive to foreign countries to raise their taxes to the American level of taxation. It is also argued that U.S. corporations abroad would be placed at a competitive disadvantage, because every other industrialized country either defers tax on the foreign source income of its corporations or exempts it from tax.

37. Taxation of Foreign Shipping

The proposal would enable the U.S. to engage in a multinational effort with other nations to tax international shipping on a fair and worldwide basis.

39. Corporate Rate Cuts

A reduction in corporate rates would be the simplest method of providing benefits to business and is the method most favored by the business community and I believe it would be most receptive to business.

The proposal to increase the investment credit is advocated by the CEA in order to target tax incentives to increase our productive stock of plant and equipment.

41. Investment Tax Credit

Aside from the proposed increase in the percentage rate of the investment tax credit, the liberalization of the tax liability ceiling to 90 percent would increase incentive to invest in productive plant and equipment because those taxpayers which have been making large investments could increase them without being concerned with deferral of the credit. The extension of the credit to utility and industrial structures and to pollution abatement facilities would stimulate investment in these assets.

The extension of the credit for pollution abatement facilities would also compensate for the reduction in tax benefits available for these facilities through the use of industrial development bonds.

The enactment of a 10 percent investment credit as a permanent feature of the tax law would not currently cost revenue but would reassure the business community.

43. <u>Small Business</u>

The package of simplification and liberalization of rules for small business corporations will relieve a number of irritants without any significant revenue loss.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

November 26, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze CLS

SUBJECT: Tax Reform

I would like to call particular attention to two points in the Treasury memo on tax reform.

1. There continues to be a difference of opinion on the structure of business tax cuts. Treasury now favors a 3-point reduction in the corporate tax rate, while CEA proposes a 2 percentage point rise in the Investment Tax Credit (from 10 percent to 12 percent) and a 2-point reduction in the corporate tax rate.

You are by now all too familiar with the source of the disagreement: CEA stresses heavily the need for additional investment over the next few years as a means of avoiding bottlenecks and price pressures. We feel that raising the ITC is the best way to encourage capacity expansion.

2. Allowance for energy and social security tax increases must be carefully taken into account in designing our tax package. Under current law social security and unemployment compensation taxes will increase by about $7 billion next year. Under current law, the combination of inflation and economic growth would push individual income tax payers into higher brackets, and thereby raise average tax rates to the tune of $8 billion in 1978 and $18 billion in 1979. By 1979 these two forms of tax increase amount to $25 billion.

The new social security taxes, now being decided in conference, will add perhaps $7 billion to taxes, offset by $1 to $2 billion additional benefits (assuming the conferees split the difference between the two Houses).

If the full <u>wellhead tax</u> is not rebated, but devoted in part to tax credits, mass transit or other uses, the additional spending by oil companies or Federal programs will be slow in starting! By 1979 this is likely to add another net drag on the economy of perhaps $5 billion in <u>net</u> tax withdrawals. Altogether, therefore, by 1979, we face a series of net tax increases from inflation, social security, unemployment compensation, and energy amounting to about $35 billion.

The Treasury tax package provides $19 billion in tax reductions in fiscal 1979 (and about the same in calendar 1979). <u>This offsets only 50 to 60 percent of the likely tax rate increases</u>.

Our Tuesday meeting with you on taxes is not addressed principally to the <u>size</u> of the proposed package. That must wait until we get a better fix on the final energy and social security decisions. While it is too early to draw firm conclusions, however, it is almost <u>certain</u> that a continuation of reasonable economic growth will require a tax reduction <u>larger</u> than the Treasury package.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

NOV 23 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR for

SUBJECT: TAX REFORM PACKAGE FOR 1978

The Treasury Department has kept me informed of the more recent developments regarding the makeup of the proposed tax reform package. I recognize the political necessity of limiting the size of this package for 1978 Congressional action although I strongly urge you to make the wider range of tax reform issues a major priority item for the following Congress.

In general I support the choices which the Treasury has made for 1978 tax reform. There is one issue, however, the status of which I understand is still undecided and on which I feel strongly. This is the repeal of the provision permitting deferral of corporate tax on foreign source income. I strongly urge that repeal of such deferral be included in the current tax reform package. The present arrangement in effect promises a lower tax rate on foreign investments and thus offers a built-in incentive for U.S. firms to distort their investment decisions by investing abroad rather than at home.

Repeal of this deferral provision is particularly important when coupled with the repeal of DISC which we understand is part of the tax reform package. Simultaneous removal of the tax deferral benefit and the DISC subsidy would have a balanced effect on U.S. investment, production and employment. Moreover, two prominent flaws in our tax system would be removed at the same stroke, considerably improving the simplicity, economic neutrality, and political fairness of our tax system.

THE WHITE HOUSE

WASHINGTON

November 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Treasury Tax Reform Materials

PRINCIPAL DIFFERENCES FROM SEPTEMBER PROPOSALS

As Mike's memorandum indicates, I have been working with him and your other economic advisors to develop a package which will meet the twin goals of providing sufficient stimulus for the economy in 1978 and allowing you to meet, to the extent current Congressional and economic realities permit, your commitment to tax reform.

I am in substantial agreement with the package presented by Mike. While it differs in many significant respects from the package developed in September, I am convinced that the climate in Congress, especially in the Ways and Means Committee, will not permit a much more substantial tax reform next year.

We will, of course, retain the option to propose more significant tax reform after the 1978 elections, though I do not think it would help the business climate to announce now any intention to go beyond the present proposals.

I have spent considerable time with the Vice President in meeting with House and Senate liberals on tax reform. There is virtually no sentiment for substantial reform even from them in an election year. Moreover, given the business and economic climate, we need a package which, while making a good first step toward tax reform, does not create undue uncertainty or unduly slow down the tax reduction aspects of our economic plan. Charlie feels the reductions need to start by mid-1978. The more complex and controversial the reform package, the more difficult this deadline will be to achieve. Moreover, a smaller number of items will allow us to win a greater percentage of our package and have a "victory" in tax reform.

Except as indicated in the section below, I am in agreement with the scope of the current recommendations. The recommendations do not include the following reform proposals made to you in September:

1. Taxation of capital gains as ordinary income
2. Taxation of capital gains at death and upon gift
3. Recapture of the $6 billion of accumulated DISC profits
4. Inclusion of IDC for oil and gas in the minimum tax base
5. Phased elimination of percentage depletion for hard minerals (a more limited reduction is recommended)
6. Phased elimination of percentage depletion for oil and gas
7. Withholding on dividend and interest income
8. Taxation of the interest buildup on life insurance and annuity contracts
9. Elimination of exemption for employer-paid premiums for group term life insurance in excess of $25,000
10. $10,000 limitation on deductions for personal interest
11. Taxation of credit unions
12. Partial integration
13. Temporary increase in the investment tax credit

DISAGREEMENT ON SPECIFIC ITEMS

I disagree with the Treasury recommendations on the following items:

1. Deferral. For the reasons given in my September memo (extract attached as Annex A), I think that even a limited reform program should seek to eliminate the deferral of tax on profits of controlled foreign subsidiaries. In addition to the arguments on grounds of good tax and economic policy, I think we will get more enthusiastic union support with this proposal in the package because it is widely perceived as an encouragement to the export of jobs. This will create controversy and we have tried to avoid that wherever possible. However, this is an item which can make the package look like a good first step on tax reform. It is a reform which does not arouse the negative emotions of the average taxpayer. agree

2. Tickets and first-class airfare. These are items which go to the heart of your credibility on eliminating tax privileges for the wealthy. They should be included in even a limited program (see the comments from my September memo attached as Annex B). Tickets for theater and sporting events may be the worst item in "expense account" living -- this is purely personal consumption and entertainment. agree

I think it would be wrong to propose limitations on business meals but nothing on theater and sporting event tickets. As for first-class airfare, almost everyone travels tourist when he has to pay for it out of his own pocket -- why should the taxpayers be forced to subsidize the difference between tourist and first class?

3. Group Legal Insurance. It might be appropriate to end the exemption for employer-paid group legal insurance in the context of a comprehensive tax reform program. However, in a limited program which does not go after the large number of significant tax preferences listed above in this memo, I think it would be insulting and politically unwise to tell the unions (the UAW in particular) that we are not going to try to eliminate the major tax preferences but we do intend to eliminate this relatively trivial item which helps their members obtain legal representation. Accordingly, I think it would be a serious mistake to accept Treasury's recommendation that this item be included in the program. ?

PROGRESSIVITY AND DISTRIBUTIONAL RESULTS

Because the current recommendations do not include a number of the essentially progressive reform items (particularly capital gains) from the September proposals, the progressivity and distributional results -- while good -- are not as favorable as under the September proposals:

1. Low and middle income taxpayers (income classes up to \$30,000) will get \$3 billion less (via smaller tax cuts) and top-bracket taxpayers (\$200,000 and over) will get almost \$1 billion more (via smaller tax increases) than they would have under the September proposals.

2. Table 3 in the Treasury materials shows that under the current recommendations the effective rate of taxation for the ~~wealthiest~~ taxpayers (\$200,000 and over) is reduced by abou~~t 12 per~~cent (from 35.3% to 31.0% of expanded income) from the September proposals. The effective tax rate for taxpayers in the \$100,000 - \$200,000 class is also reduced. However, the effective tax rate for every other income class is increased (except for the \$0 - \$5,000 class where it remains unchanged), when compared to the September proposal.

3. You will recall the chart in the September materials (Chart 3 in the Overview) which showed a smooth increase in effective tax rates as we moved up the income scale; that smooth progression compared favorably with present law under which the progression flattens out at the top with relatively little difference between the effective tax rates of the $100,000 taxpayer and the $200,000 taxpayer. That smooth progression no longer exists under the current recommendations -- the effective tax rates again flatten out at the top.

4. Under the current recommendations, the middle class ($20,000 - $30,000) bears a slightly larger proportion of the total tax burden after the tax reform proposals than before. Under the September proposals, the after-reform share of the burden did not increase until the $30,000 - $50,000 income class.

As indicated above, these adverse changes result primarily from the limited nature of the current recommendations. However, I think there may still be several steps we can take which could considerably increase the progressivity of the current program:

(1) Treasury currently proposes to reduce the top-bracket rate from 70 to 65 and the bottom rate from 14 to 12. The 70 rate presently applies only to taxpayers (on a joint return) with income levels above $200,000 -- these taxpayers constitute about .0005 percent of those who file tax returns. The basic theory behind the comprehensive reform proposals of September was that the top bracket rates should be held hostage as trade-offs for elimination of the capital gains preference. Reducing the top rates now may cut into our ability to go after the capital gains preference in the future, although a very modest cut may be acceptable.

Maintaining the top bracket rate at 70 (or at 67 or 68) would slightly increase the progressivity of the current recommendations. On the other hand, you should know that Larry Woodworth believes that some reduction in the top rates will facilitate passage of our program. I think we should consult with some members of Congress (particularly those on Ways and Means) before committing ourselves to a top rate of 65. We could also consider lowering the bottom rate to 10, if feasible, and increasing the standard deduction (which would yield more simplification).

(2) Treasury currently proposes to tighten the minimum tax rules by eliminating the deduction for taxes paid on regular income. This is a good reform and I support it. But I think that the minimum tax itself should be increased from the present 15% to 20%. (I have discussed this with Larry Woodworth and he has no objections.) This would reduce the value of the items of preference income (including capital gains) which form the minimum tax base and make these items easier to go after in the future.

The politics of trying to increase the minimum tax rate should be a lot better than the politics of trying to eliminate some of the preference items directly. Since the minimum tax almost totally affects upper-income taxpayers, this proposal would have excellent progressivity and distributional results.

I recommend that you ask Treasury to try to improve the progressivity and distributional results of the current recommendations through consideration of the measures mentioned above and others they may develop.

INFLATION POLICY

Serious consideration should be given, before final decisions are made on the tax reform-tax reduction package, to Charlie Schultze's idea of tying some portion of tax relief to an anti-inflation program such as Art Okun has suggested.

CONCLUSION

The tax package proposed by Treasury, particularly with the addition of deferral and the disallowance of tickets and first-class air fare deductions, should make this a respectable tax package. It will create controversy, despite the elements left out, and will be seen as a credible first step toward broad tax reform.

-- It is pointed out that the taxation of accumulated DISC profits may lead to accounting problems for some corporations which have not established adequate reserves. However, this would only apply to some corporations who themselves have chosen not to establish reserves for future taxes. It is, in any case, a technical accounting problem but not a serious financial problem because the tax would only have to be paid over a ten-year period. We are also advised that Treasury staff has developed a number of mechanisms which could handle the accounting problem.

3. Deferral. We recommend that the deferral of taxation on the profits of U.S.-controlled foreign subsidiaries be eliminated:

-- Deferral provides a tax incentive for U.S. multinational corporations to invest abroad rather than in the U.S. It is inconsistent with our concern for domestic capital formation and job creation.

-- Deferral is regarded by organized labor and average Americans as an incentive for multinationals to export jobs. It will be difficult for the Administration to argue for a free international trade policy if we express indifference to tax provisions which encourage our corporations to build plants abroad rather than here at home.

-- A Treasury staff paper shows that approximately 80% of the benefits from deferral go to large corporations ($250 million or more in assets) and approximately 85% of the foreign earnings subject to deferral arise from investments in developed countries (Western Europe, Japan, etc.) rather than LDCs. Thirty large multinationals get approximately 50% of all the benefits from deferral.

-- The argument that elimination of deferral would lead many foreign countries to raise their taxes on U.S. subsidiaries there ignores the facts that (a) we have tax and commercial treaties with most of the countries where there is major U.S. investment and those treaties would generally prohibit such discrimination and that (b) many of such countries would find it imprudent in any case to take specific measures to discriminate against U.S. investment as opposed to all other foreign investment. Accordingly, the argument that elimination of deferral will not mean much revenue for the Treasury is subject to considerable doubt. Elimination of deferral will curtail the ability of the multinationals to engage in "transfer pricing" and other financial manipulations, and this by itself should have a considerable positive effect on tax revenues. (The basic Treasury revenue estimate is approximately $500 million a year.)

-- The argument that deferral is proper to offset the benefits given to domestic investment through the investment tax credit and accelerated depreciation confuses rules of international taxation with those of domestic policy. No one would seriously argue that accelerated depreciation and investment tax credits, which are designed to stimulate domestic capital formation, are somehow being improperly denied to multinational investment in foreign countries. It should also be noted that investments by U.S. multinationals in foreign countries do not have to comply with domestic economic and social legislation such as environmental and safety standards and minimum wage legislation.

-- This is an item which will reflect upon the credibility of our entire program. Elimination of deferral has long been a basic objective of tax reformers. You made a number of campaign statements urging the elimination of deferral.

to the unions (the UAW in particular) which just succeeded last year in getting legislation passed exempting these benefits from taxable income.

3. Travel and Entertainment Expenses. Treasury proposes to eliminate business deductions for entertainment facilities such as yachts, club dues, etc. We agree. However, Treasury proposes to leave untouched deductions for theater and sporting event tickets, golf fees, and first-class airfare. We do not see the distinction between these symbols of "expense account" living and club dues. We recommend that deductions be eliminated for theater and sporting event tickets and golf fees and that the deduction for airfare be limited to economy or coach class (this should apply to corporate jets as well as commercial flights, if technically possible):

-- We think that the limited Treasury proposal is inconsistent with your strong statements on "expense account" living. The general public cares more about expense account "loopholes" than any other preferences in the tax code. Our proposals in this area will reflect on the credibility of our entire tax reform program.

-- The general public will never understand why they should continue to subsidize 50% of the cost of tickets and first-class travel. During the campaign you argued against first-class airfares as a tax break for the wealthy.

-- All the reasons for eliminating the deduction for club dues apply to these items as well (and perhaps even more so to tickets).

-- Although not nearly as important as the principle here, the revenue involved is not insignificant, possibly amounting to $250 million per year.

4. Business Meals. Treasury proposes to disallow only 50% of the cost of business meals. Again, we do not think that the average taxpayers should have to subsidize 50% of the cost of lavish dining. All the reasons mentioned above and the public's concern over perceived abuses come into play here as well. We recommend that deductions for business meals be limited to the lesser of a flat dollar amount per meal (e.g., $15) or 50% of the cost of a meal; if you prefer a simpler standard, we would recommend just a flat dollar limitation per meal.

THE VICE PRESIDENT
WASHINGTON

November 23, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: THE VICE PRESIDENT

SUBJECT: New Tax Reform Proposals

I wish to make two general comments about the proposed tax reform package.

1. It does not contain an anti-inflationary element. It may be impossible to do so, but this may be our last chance to include tax incentives as a part of an anti-inflationary effort for at least two or three years and I believe serious consideration should be given to such an element in this proposal.

2. I believe that a macro-economic analysis must be made of this proposed tax reform and stimulation package so that we have an idea not only as to its tax consequences, but its consequences to the general economy.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

C

November 29, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Employee-Independent Contractor Tax Issue

At our meeting with business leaders on November 10, I promised to report to you on proposals to withhold income and payroll taxes from payments to independent contractors. This proposal is not part of the tax reform package, although it is a thorny problem, since the IRS tests for determining whether a worker is an employee or an independent contractor are unclear, and simplification would be difficult under existing law. Larry Woodworth's people are currently attempting to develop a broader and more precise statutory definition of "employee". I will keep you posted.

Mike

W. Michael Blumenthal

THE WHITE HOUSE
WASHINGTON

November 30, 1977

The Vice President
Stu Eizenstat
Charles Schultze

The attached is forwarded to you for your information.

Rick Hutcheson

RE: EMPLOYEE-INDEPENDENT CONTRACTOR TAX ISSUE